

# Emerging sound practices on supervisory capacity development<sup>1</sup>

## Executive summary

**Sound capacity development underpins an effective system of financial supervision.** To fulfil their prudential mandate in terms of safeguarding the safety and soundness of financial institutions, financial sector supervisors need suitably skilled staff members to operationalise their supervisory frameworks. But these skills require continuous enhancements to cope with the rapidly evolving financial environment. As technology and sustainability issues reshape the financial sector, new supervisory skills and approaches are required. Well structured, effective and forward-looking capacity development is key to equip all levels of supervisory staff with the necessary skills so that they can continue to properly discharge their functions.

**Financial authorities are making good progress in meeting international standards that call for sound institutional frameworks, including sufficiently skilled staff, but weaknesses remain.** The analysis of assessments of Basel Core Principles by the International Monetary Fund (IMF) shows that many jurisdictions exhibited substantial weaknesses in their institutional framework for supervision, including staff shortages and insufficient supply of needed skills. Similarly, peer reviews conducted by the International Association of Insurance Supervisors (IAIS) found that one of the main challenges for authorities is securing the staff resources necessary for effective supervision. These weaknesses in internal supervisory capacities can jeopardise the fulfilment of mandates by financial authorities.

**Challenges to capacity development are compounded not only by rapid changes in financial markets but also by the necessary regulatory/supervisory enhancements to deal with them.** In this sense, the scope of supervisory mandates has expanded, and financial regulatory frameworks have evolved from compliance-based to risk-based approaches. These developments are prompting the need for new skill sets to support the exercise of sound supervisory judgment and fulfil demands from new supervisory focus areas; as well as forcing a re-examination of how capacity development activities are delivered in the light of recent trends in digital training modalities spurred by the pandemic.

**This paper aims to contribute to efforts to effectively implement and enhance supervisory capacity development by taking stock of strategies and approaches in financial authorities and by identifying emerging sound practices.** The findings are largely based on survey responses from 26 authorities worldwide, combined with interviews with selected respondents. The sample contains a mix of banking, insurance and integrated authorities. The paper also draws from desktop reviews of websites, annual reports and management speeches of some authorities. A few of these authorities were not survey respondents. Moreover, the experience of the Financial Stability Institute (FSI) in delivering capacity development programmes to financial sector supervisors for more than two decades also informs some of the discussion.

**While traditional financial capabilities remain core to financial supervision, there has been an increase in the importance of skills related to technology and climate-related financial risks, and soft skills have also gained in importance.** Survey responses show that traditional supervisory capabilities, such as finance, accounting and risk management, remain important for financial authorities. Nevertheless, skills related to the digitalisation of finance and climate-related financial risks have increased

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(and are expected to continue to increase) in importance over the years. This trend is reflected in the hiring practices of financial authorities. Authorities have also highlighted the importance of enhancing the soft skills of their staff such as communication, leadership and teamwork to facilitate the exercise of sound judgment in their supervisory work.

**Financial authorities respond to these changes by putting in place sound institution-wide capacity development strategies.** Based on the experiences of authorities, sound capacity development strategies should be:

- aligned with institutional mandates and regulatory/supervisory priorities;
- clear on the skills, both technical and non-technical (eg soft skills), which need to be developed by staff, including mid and senior managers;
- led by a dedicated function or ideally a dedicated unit;
- formulated in close consultation with, and with the participation of, relevant internal stakeholders including front-line supervisors and subject matter experts;
- comprehensive to include learning opportunities beyond training (ie include non-training opportunities such as secondments and internal rotations etc); and
- designed in a holistic way (ie consider the digital capabilities required of planned programmes; the organisational structure and appropriate learning culture to enable effective change; and the potential external partnerships to enrich the learning ecosystem).

**Authorities find several obstacles in the effective implementation of capacity development strategies, and the key obstacle is staff members' lack of time.** Staff are so heavily engaged in day-to-day supervisory work that finding time for training is difficult. Another challenge is authorities' widening mandates, which in turn lead to other challenges such as recruiting specialists and finding experts to provide the training needed to respond to these widening mandates. There are also other operational impediments including budgetary and human resource constraints, as well as procurement roadblocks.

**There are certain factors that can help authorities remove these obstacles.** These factors enable effective implementation of capacity development strategies and include:

- strong support from top management and making sure line managers are aligned with the strategy and allow sufficient time for training their staff;
- a well resourced capacity development function (ie appropriate expertise, budget and technological infrastructure), aided by strong governance with clear assignment of roles and responsibilities;
- efficient operational processes, for example in procuring training services from external experts and learning technologies;
- clear linkage between capacity development activities and incentive mechanisms, not only for learners but also for internal subject matter experts that serve as trainers;
- integrating learning and development approaches as part of broader institutional people strategies (eg succession planning; diversity and inclusion; and hybrid working) in a way that enhances staff engagement, satisfaction and a positive working environment;
- flexibility in terms of delivery formats for capacity development activities and the design of learning content;
- transparency about available capacity development opportunities for staff and public disclosure of key aspects of their strategies; and
- an assessment framework to measure the effectiveness of the capacity development strategy and associated specific programmes and activities.