Caleb M Fundanga: Consolidated supervision

Remarks by Dr Caleb M Fundanga, Governor of the Bank of Zambia, at the Joint MEFMI-FSI Regional Seminar or on consolidated supervision, Lusaka, 19 October 2009.

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The Executive Director of MEFMI, Dr. Elias Ngalande
The FSI, Senior Financial Sector Specialist, Mr Amarendra Mohan
The Director, Financial Sector Management Programme of MEFMI, Mr Alphious Ncube
Distinguished Resource Persons,
Participants,

Ladies and Gentlemen

It is my honour and privilege to officiate at this regional seminar on Consolidated Supervision jointly organised by the Financial Sector Management Programme of MEFMI and the Financial Stability Institute of the Bank for International Settlements.

May I also take this opportunity to welcome and thank our distinguished resource persons, for accepting invitations to come for this important seminar. It is my hope and trust that their participation will enrich the deliberations of this seminar.

Before I delve into the intricacies of the seminar, I would like to applaud MEFMI, and the FSI for consistently working together in the region to upgrade the banking supervisory skills. I am reliably informed that at least once every two years, the two organisations organise a high level seminar on a topical issue. It is therefore befitting for me to commend the two institutions for the work well done.

Ladies and gentlemen, to some, it would not be a surprise to note that the seminar comes shortly after the first anniversary of the collapse of Lehman Brothers, one of the first banks to fail in a series of cascading defaults of major international banks, which precipitated the onset of the current global financial crisis and the resultant worldwide economic recession. The case of Lehman Brothers is just one of the many that highlights apparent weaknesses in the global regulatory and supervisory environment.

To this end, market practitioners and academics are still analysing and discussing the causes, prudential supervision frameworks, problem bank resolutions and strategies to avoid future systemic challenges.

As the current global financial crisis has demonstrated, critical deficiencies still remain in risk management systems. Areas in need of critical enhancements include identifying key risks both within and across borders; assessing these risks, including stress testing and macro-prudential analysis to determine the impact on the financial system; monitoring, developing coordination protocols, reviewing the regulatory frameworks, adopting appropriate risk management frameworks and adopting international accounting standards.

While these structural deficiencies are not new, the current crisis has brought them to the fore. The speed at which the crisis has spread across the globe indicates that the development of coherent and rigorous frameworks for maintaining financial stability came too late for several countries, leading to adhoc and inconsistent policy responses.

Ladies and gentlemen, over the years, we have witnessed a process of change that has allowed many financial organisations worldwide to adopt more flexible structures whereby they have established a wide range of subsidiaries and affiliates that are engaged in business lines different from the core business of the parent financial institution. We have seen banking activities, asset management or insurance activities that previously were conducted on a stand-alone basis now being provided within one financial group. This trend has steadily gained momentum in the Eastern and Southern African financial sector. Some of these financial groups operate businesses across borders.

The main economic and financial benefit which encourages the formation of such groups is the enhanced ability to achieve economies of scale and capture synergies across complementary financial services business lines. These synergies result in improved operational efficiency and effectiveness due to lower costs, reduced prices, and improved innovation in products and services. At the same time the emergence of such groups has brought complex linkages and relationships among economic agents. Consequently, they have also necessitated a paradigm shift in supervisory approaches in order to identify, manage and monitor risks.

It is evident in our various jurisdictions that current legislation and regulatory tools are not adequate to effectively address the potential risks that threaten the safety and soundness of our respective financial sectors posed by activities emanating from such financial groups.

Ladies and Gentlemen, I do not want to dwell much on what should be addressed by this seminar. I am glad that MEFMI and the FSI are conducting this seminar on Consolidated Supervision for the region at a time that our region is also exploring these topical issues. It is my hope that this seminar will equip participants with relevant skills as senior examiners to develop appropriate policies for their jurisdictions with respect to Consolidated Supervision as well as prepare them for the daunting challenge of actually implementing Consolidated Supervision in our various jurisdictions.

It is also my expectation that you will leave this forum after three days, with a new mindset and a renewed commitment to practice what you will have learned so that you could contribute to improving supervisory frameworks in our various countries. I trust that the seminar will also provide you with an opportunity to network and establish durable and valuable professional contacts within the region.

I wish to take this opportunity, on behalf of the MEFMI board and indeed on my own behalf, to thank the FSI for their continued support to MEFMI activities over the years. As our cooperating partners, they have always shown willingness to go an extra mile in providing the necessary expertise that helps to sharpen our skills and groom the MEFMI Fellows on gratis terms.

I have looked at the programme planned over the next three days. It has a comprehensive list of topics, which I believe will enable you to broaden and deepen your knowledge and skills. I have also been reliably informed that you will get information from seasoned financial sector practitioners and supervisors who will provide you with valuable insights on the subject of Consolidated Supervision and associated risk management processes.

Ladies and Gentlemen, allow me now to express my gratitude to the Federal Deposit Insurance Corporation (FDIC), Central Bank of Nigeria, Reserve Bank of South Africa, Reserve Bank of India, Standard Chartered Bank Zambia Plc and the Reserve Bank of Zimbabwe for releasing officials from their institutions to come and participate in this important seminar and share their experiences and expertise with us.

Chairperson, may I also take advantage of my position on the podium to ask you all to join me in thanking them with a hand of applause. I wish to urge them to continue supporting MEFMI as the capacity needs of the region are yet to be fully met.

To the participants, I urge you to fully participate in the discussions and use every opportunity to tap from the vast experience and expertise represented here. Sustainable capacity building in the region can only be achieved through sharing of ideas and experiences on both international and regional perspectives.

Finally, I wish you all the best during your stay in Lusaka. I hope that you would make some time to visit some of the beautiful spots that our city and country has to offer.

With these remarks, I now declare this workshop officially opened. I thank you.