

## Mugur Isărescu: Integrated supervision

Opening speech by Mr Mugur Isărescu, Governor of the National Bank of Romania, at the Seminar "Integrated Supervision", jointly organised by the Romanian Financial Supervisory Authority and the National Bank of Romania, Sinaia, 22 January 2014.

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Distinguished guests,

Ladies and gentlemen,

It is a pleasure for me to warmly welcome you to this seminar on Integrated Supervision. The newly established Romanian Financial Supervisory Authority and the National Bank of Romania decided to jointly organize the conference on this challenging topic that has recently come into the spotlight.

I particularly want to thank our guests from the national supervisory authorities of Austria, the Czech Republic, Germany, Poland, United Kingdom and Ireland. I also welcome the experts from the World Bank, the International Monetary Fund and the European Commission who will generously impart their knowledge to all of us.

I do wish all of you a pleasant stay here in Sinaia. This three days long seminar is an excellent occasion to learn, to exchange views and to generate professional ties.

Allow me to say a few words about where you are. This is a premise of the National Bank of Romania's training center, situated in Cumpatu district, in this lovely resort, Sinaia.

The name Sinaia is an eponym of Mount Sinai. By the end of the 17th century, a group of Wallachian monks, led by Mihail Cantacuzino, a landlord of those times, went on a pilgrimage to Palestine and the Sinai Peninsula. They were hosted at Saint Catherine monastery. Once returned, they established a convent quite here, in the heavily forested area, at the bottom of the Carpathians. The new monastery was called Sinaia, in the memory of their journey to the Sinai Peninsula. A century later, the first King of Romania, Carol I fell in love with the place and built Peles Castle, his summer residence. Following the establishment of the Peles Castle a railroad connecting the capital to the king's new summer residence was built. Little by little, Sinaia became popular among the members of the high society: they started building summer residences as well as hotels, villas. You can visit the Peles Castle and the Sinaia monastery on Friday.

And now about this seminar.

The topic of this seminar is integrated supervision to ensure financial stability. It relies on several conceptual layers. First of all, to understand that the frontiers among financial activities have been blurred by financial innovation and the formation of conglomerates. Secondly, effective Regulation and Supervision involves a working together of regulators and supervisors, who oversee various financial markets. And thirdly, macro prudential concerns are increasingly on the radar screen of Regulation and Supervision. Above all one needs to understand the functioning of overall finance.

The program of our seminar is quite rich. It covers an array of conceptual and operational issues such as: the need for integrated financial supervision; risk-based supervision; corporate governance for non-banking financial institutions; the risk management capacity of financial institutions; operational and systemic risks from an integrated perspective; macro-prudential and micro-prudential supervision instruments; central bank oversight of financial markets infrastructure; supervision of conglomerates; stress testing for a sound financial system; institutional coordination at the European Union level, and, not least, consumer protection.

Europe is not yet out of the woods when it comes to overcoming a very deep financial and economic crisis. There are some good signs, but there is still quite a long way to go – as Mario Draghi recently reminded us in the Committee on Economic and Monetary Affairs of the European Parliament on December last year.

The major lessons of the financial crisis are incorporated into this reform. We mostly recognize now that price stability is not sufficient for ensuring financial stability and light touch regulation has failed. There is a derailment of finance, that needs to be corrected, and this is the objective of reforms under way in Europe and the United States. Interconnectedness has grown immensely in the latest couple of decades against the backdrop of technological change (new IT technologies) and financial deregulation.

Consequently, systemic risks have grown enormously, banks and other financial entities have neglected them and regulation and supervision underestimated them.

In all the European Union countries, Regulation and Supervision is undergoing major changes, and integrated supervision is a hallmark of the new reform. At the European Union level, reforms have led to the setting up of the European Systemic Risk Board and three European Authorities (European Banking Authority, European Securities and Markets Authorities, European Insurance and Occupational Pensions Authority). They work together in scrutinizing risks and formulating policies for dealing with systemic threats.

The National Committee for Financial Stability has the task of overseeing the overall financial system. Therefore, the mission of adopting an integrated approach to examining risks is in its genes. The National Bank of Romania has a history of thinking “globally” about the Romanian financial system, which is of enormous help for the National Committee for Financial Stability. The Financial Supervision Authority itself has to develop its conceptual and operational arms in this regard.

The very organizational map of the Financial Supervision Authority shows the attention granted to integrated supervision. Thus, a directorate for financial integration is a novelty and has a prominent role to play. It is commendable that its staffing has tried to bring in highly experienced individuals. But, however experienced these people are, there is a lot they need to understand better in order to fulfil their mission. For the sake of fairness, it should be said, that integrated supervision is at the beginning in many European Union member states. And even where it has a longer history, its performance is not stellar.

I do hope this seminar is going to offer you the opportunity for fruitful discussions and the experience and skills you gain from here will be beneficial to all of you. This is quite a special place for such a seminar since, for eight years in a row, we organised along with the International Monetary Fund a regional conference on financial stability issues.

Thank you and enjoy your dinner.