

Caroline Abel: Opening remarks - Bank Failure Simulation Workshop

Opening remarks by Ms Caroline Abel, Governor of Central Bank of Seychelles, at the Bank Failure Simulation Workshop, Victoria, 28 March 2022.

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Deputy Governors,

Mr James Hambric and team of facilitators from US Treasury OTA,

Participants,

Good morning to you all.

It is with great pleasure that I welcome you this morning as we embark on a week-long journey towards gaining a better understanding and in turn, enhancing our ability to face challenges that can arise as a result of a bank failure.

At this juncture, please allow me to extend a special welcome to the workshop facilitators, Mr. James Hambric and his team from the United States Department of the Treasury Office of Technical Assistance.

Since the second half of 2021, the OTA team has been instrumental in assisting the Central Bank of Seychelles with reviewing of our bank resolution framework. Thus far, work has been progressing on the policy aspects, best practices and legal considerations. The Bank Failure Simulation Workshop which begins today will give further impetus to this endeavour.

Bank failure. A phenomenon, that as authorities, we would prefer not to have to face. Yet, the various crises that continue to emerge provide us with many lessons, key of which is the importance of preparedness and having an effective resolution regime in the event that a bank fails.

Banks are important institutions as they provide services that are critical to the functioning of the economy. These include deposit-taking and lending and the provision of payment services. Banks function fundamentally on one simple yet very fragile element, which is the public's trust. As bank users, we all need to trust that our deposits are safe in a bank - that whenever we need to use or withdraw our money, we will be able to do so. If there was even a slight suggestion that we will not be able to access our money tomorrow, the natural impulse would be to withdraw our money at an ATM or the bank's tills at the earliest opportunity.

The typical maturity structure of banks is such that deposits are short term and they fund loans that are long term. This facet makes it difficult for banks to meet large-scale deposit withdrawals at one go. Loss of confidence in one bank can easily spread to loss of confidence in other banks and the wider banking system, leading to bank runs.

There is also the risk of contagion that can arise from interbank exposures in the payment system, which could undermine financial stability and cause adverse social

and economic impacts. For this reason, prudential supervision is key to ensuring active monitoring and prompt identification of weaknesses in individual banks and the banking system in general. In the event that banks do fail, it is important to have an effective bank resolution framework in place to flexibly and quickly address the failure, preserve financial stability at minimum cost to taxpayers and minimise adverse impact on the public.

Your participation in this workshop is not by chance; each of you has an important role to play should a bank fail, be it in your supervisory or legal advisory role, or in your other functions encompassing consumer protection, financial stability, public policy or finance. It is important that you know your individual responsibility as well as that of your respective authority in the eventuality that a bank failure situation arises.

This workshop will take a best practice approach to addressing bank failure, which will allow for an applied view in the ongoing re-examination of the bank resolution framework as relevant to the context of Seychelles. It will also set the scene for co-operation amongst the relevant authorities. It should also get each of us thinking about what should be in place in relation to our respective functions in order to effectively address such eventuality.

At the end of this workshop, the objective is to achieve a shared vision vis-à-vis bank resolution within the Central Bank and across other stakeholders. The intention is that this workshop is not a one-off exercise but the start of a series of similar exercises with the objective of continuously testing crisis preparedness, anticipating and more effectively addressing associated challenges.

With these remarks, I officially declare this Bank Failure Simulation Workshop open. I encourage your active participation and wish you all a fruitful week.

Thank you.