BANK FOR INTERNATIONAL SETTLEMENTS

The new BIS strategy – bringing the Americas and Basel closer together

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Introduction

Ladies and gentlemen, good morning. Thank you for the kind introduction. I would like to express my gratitude to the organisers for making this event possible and to our host, the Superintendency of Banking, Insurance and Private Pension Funds of Peru, for its extraordinary hospitality.

As you may know, late last year we launched the Bank for International Settlements' medium-term strategic plan, called Innovation BIS 2025. The new strategy requires changes in the way we work and in the issues we cover in order to reflect the priorities that are front and centre in the agenda of financial authorities around the world, including those derived from the way innovation and technology are reshaping the financial landscape. At the same time, the new strategy reaffirms our core mission, which is to provide the highest-quality, cutting-edge knowledge and financial services to central banks, as well as to promote cooperation and collaboration for the common good of a well functioning global financial system.

In my remarks today, I will first provide an overview of the Innovation BIS 2025 strategy. Then, I will talk about concrete examples of how the new strategy can benefit our stakeholders in the Americas, including supervisory authorities in the region, which are well represented today. Last but not least, I will elaborate on the enhanced role of the Financial Stability Institute (FSI) as part of the new BIS strategy.

1. A new strategy: Innovation BIS 2025

Ten years after the peak of the Great Financial Crisis, we have come a long way. In jurisdictions that bore the brunt of the crisis, economies have stabilised and the resiliency of the banking system has been greatly strengthened. This was the result of a broad set of conventional and unconventional monetary measures and wide-ranging regulatory reforms. Regarding the latter, in this venue I must highlight the importance of Basel III in addressing the main fault lines exposed by the Great Financial Crisis, including excess leverage, insufficient loss-absorbing capacity and overexposure to liquidity risk.

Having said that, the economic recovery has taken time and has required significant effort. This is largely due to the scars left by the financial crisis, which underscore the lasting damage that crisis episodes can leave on the economy. Therefore, reducing the likelihood and severity of crises should continue to be a top priority for the global financial sector community.

At the same time, over the last 10 years, our challenges as financial sector authorities have continued to grow. The post-crisis environment presents a number of policy issues, as central banks rethink their monetary policy strategies in an environment characterised by remarkably subdued inflation, historically low interest rates, weak bank profits in advanced economies and deleveraging in some major emerging market economies. In this environment, the significant expansion of household and corporate debt is leaving economies vulnerable to negative shocks. There is also evidence of declining credit standards and rapid expansion of the leveraged loan market, which could pose serious risks if credit conditions deteriorate abruptly. The uncertainty stemming from the return of protectionism and the resulting trade tensions is not at all helping the economic outlook.

Against this background, technological innovation is changing banks' business models and affecting the financial sector and the economy as a whole. Considering the potential frictions ahead, it is essential to realise the full benefits of the global financial reforms, particularly Basel III, through their implementation in a timely and consistent way. This will give stakeholders clarity and certainty, and reduce risks of regulatory fragmentation and cross-border competitive distortions.

In the light of the new challenges facing the central bank community, the BIS has reassessed the way it is fulfilling its mission. At the BIS, we work with and for the central bank community to promote global monetary and financial stability through international cooperation. We do this in three main ways. First, we conduct economic research and analysis about policy issues facing authorities. Second, we act as a forum for discussion and cooperation among policymakers to foster monetary and financial stability. This is what we call the Basel Process. And, third, we provide banking services to our 60 member central banks, the wider central banking community and other international institutions.

It is in this context that we developed the Innovation BIS 2025 strategy. Specifically, the new strategy means the following changes in our three main areas of activity:

- Our economic analysis and research will broaden in focus to include new themes and respond to the current and foreseeable challenges facing the central bank community and the financial services industry. As such, our work will focus on the implications of technological innovation for central banks, the financial system and the economy at large; the adjustments in monetary policy frameworks in advanced and emerging market economies; and the evaluation of post-crisis financial reforms.
- As a global forum for cooperation among central banks and other financial authorities, we will continue our strong support for the Basel Process, develop new channels of collaboration and knowledge-sharing and enhance our capacity-building efforts.
- Our role as the "bank for central banks" requires our banking business to continue to excel, calling for investment in next-generation technologies. We aim to enlarge our range of financial products and services, expand our global presence and upgrade our IT environment to more effectively support our activities.

2. Innovation BIS 2025 and the Americas

Allow me now to provide some concrete examples of how the new BIS strategy can benefit our stakeholders in the Americas.

First, let me refer to our Representative Office for the Americas. This office was established in Mexico City in 2002 to further develop BIS activities in the Americas in close coordination with the head office in Basel. A key input into the activities of our Representative Office is provided by the Consultative Council for the Americas, which comprises the Governors of BIS member central banks in the region and which is currently led by the Governor of the Central Bank of Peru, Julio Velarde. In the context of Innovation BIS 2025, we decided to increase the strategic importance of this office and to upgrade the position of Chief Representative to be part of overall BIS Senior Management. As part of that growing strategic importance, we are also establishing a dealing room in the Representative Office to better serve our central bank customers in the region.

I am very pleased to have with us today two people that will have a pivotal role in delivering the Bank's enhanced activities in the region: Alexandre Tombini and Jaime Cortina. I am sure many of you know Alexandre from his time as Governor of the Central Bank of Brazil. Last month, he took up the position of Chief Representative, overseeing all activities of the BIS Americas Office. Jaime Cortina also recently took up the role of Deputy Chief Representative and Regional Head of Treasury and Asset Management. In the latter capacity, he will oversee the establishment of the new dealing room and manage it once it opens for business next year.

The second concrete example through which the Americas can benefit from our 2025 strategy is the BIS Innovation Hub. Last June, the BIS Board approved the establishment of the Innovation Hub with the objective of fostering international collaboration on innovative financial technology within the central banking community. The role of the Innovation Hub will be to develop in-depth insights into critical trends in technology affecting central banking; to develop public goods in the technology space to improve the functioning of the global financial system; and to serve as a focal point for a network of central bank innovation experts. The Hub will span multiple locations. As a first step, Hub Centres will be set up in Basel and Hong Kong SAR, making use of existing BIS facilities. A third Hub Centre will be established in Singapore, after the completion of the necessary institutional arrangements. And we envisage additional Hub Centres being established in the Americas and Europe as part of a second phase of implementation.

The third example I wanted to give today is the creation of the BIS Cyber Resilience Coordination Centre (CRCC) as part of our 2025 strategy. The overall objective of the CRCC will be to provide a structured and careful approach to knowledge-sharing and collaboration amongst central banks in the area of cyber resilience. Using our trusted position within the central bank community, our goal will be to fill specific and under-serviced cyber security needs of central banks that we feel the BIS is in a unique position to provide. Specifically, the CRCC will endeavour to provide core services to the central bank community such as:

- Developing a cyber resilience self-assessment framework for central bank cyber security benchmarking.
- Providing cyber range capability to provide hands-on cyber security training on scenarios that are fully customised for the financial sector.
- Providing a secure collaboration platform for multilateral cyber threat information exchange, virtual access to cyber security personnel in other central banks, information technology investment discussions and best practices in information-sharing.
- Collaborating closely with the FSI to assist in its delivery of cyber resilience publications and training as well as providing cyber security expertise in relation to emerging financial technology trends.

3. Innovation BIS 2025 and FSI work

Let me now turn to the work of the FSI, which is another concrete way the Americas can benefit from the Innovation BIS 2025 strategy. The strategy highlights the FSI's role in supporting the implementation of the post-crisis regulatory reforms and in supporting capacity-building of financial authorities more generally.

In order to contribute to the effective and timely implementation of regulatory reforms, the FSI will enhance the delivery of its outreach initiatives by expanding its offering of online courses. Just a couple of months ago, for example, the FSI, together with the International Monetary Fund, launched the Supervisory and Regulatory Online Course (SROC) for banking supervisors. The course provides a comprehensive overview of key aspects of banking regulation and supervision. The FSI plans to supplement the SROC with advanced or specialised online courses in the near term that will focus on key regulatory and supervisory issues.

In terms of topics, the FSI's focus under the new strategy will be to help build capacity with regard to two topics that we believe are important priorities for financial authorities: technology and crisis management.

On technology, a lot has been said about the entry of new players and the use of new technologies in the financial system and the opportunities and risks that they bring. The opportunities include new, more efficient and more accessible delivery channels for financial products and services, which in turn help promote financial inclusion and stability. A number of financial authorities have put in place initiatives such as innovation hubs, accelerators and sandboxes to more effectively harness these opportunities and, in the process, seem to have embraced the promotion of innovation as one of their mandates. In terms of risks, the usual prudential concerns regarding financial and operational risks are still present but, in the case of the latter, they have been magnified due to increased cyber risk and third-party interconnections. In addition to these risks, there are issues relating to consumer protection, data protection and privacy, and market competition, among others. Most of these issues do not fall under the remit of financial authorities, which underscores the need for closer coordination with other authorities such as those for data protection and competition.

The FSI will focus on these technology-related issues as part of the 2025 strategy. In general, it will seek to help financial authorities adjust their policies and practices in the light of new technological developments in financial services. In practical terms, the FSI is comparing technology-related policies and practices in different jurisdictions, working on establishing a repository of fintech regulation and supervision, and providing a venue for information-sharing with authorities that are themselves using new technologies to support their own work.

On crisis management, the lessons learned during the Great Financial Crisis led policymakers to develop a new framework for dealing with bank failures. These efforts culminated in an international resolution standard in the form of the Financial Stability Board's Key Attributes for Effective Resolution Regimes. Implementation of this international resolution standard gives authorities an opportunity to enhance their crisis management frameworks, but it also poses challenges. Take as an example the provision in the standard that gives authorities the power to restructure the liabilities side of a failing firm by bailing-in some of its liabilities. In many jurisdictions, such as those here in the Americas, many banks are primarily financed by equity and deposits. Requiring banks in these jurisdictions to build layers of bail-in eligible debt so as to make a bail-in strategy possible may be inconsistent with their business models. Moreover, domestic capital markets are probably not deep enough to absorb the necessary issuances, and banks may be unprepared to tap international capital markets, which would have the additional disadvantage of exacerbating external imbalances.

The FSI will study such policy implementation challenges as well as other crisis management-related issues as part of the 2025 strategy. It will do this by comparing policy approaches and their implementation, analysing past crisis episodes and organising crisis simulation exercises. In fact, the FSI is already preparing the first crisis simulation exercise, which will focus on six Latin American countries in which 11 authorities have already agreed to participate. These activities will hopefully help authorities build capacities in the area of crisis management.

Conclusion

A number of the issues I briefly mentioned, such as authorities' multiple mandates, the need for closer coordination and cooperation among authorities, and leveraging lessons learned from past banking crises to enhance authorities' crisis-preparedness, will be discussed in the various sessions of this meeting. This gives me comfort because it affirms that our new strategy is on the right track and is responding to our stakeholders' needs.

I wish you a fruitful meeting. Thank you.