



Superintendencia
de Bancos
e Instituciones
Financieras
Chile

Inside Out: Supervision Inside and Outside the Central Bank

Central Banking Seminar, The Implications of Divergent Monetary Policies
Federal Reserve Bank of New York

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Context

Global financial crisis 2008/09:

- Differences regarding the impact on banking systems
 - Several reasons... one quite important: (in) effective supervision

The international response to the crisis has focused on the need of more and better regulations:

- Capital
- Liquidity
- Provisioning
- Etc.



Context

- But the international response has not been so strong in other important matters of oversight such as **supervision**
- As regulation improved, the supervisory framework faces additional challenges
 - Both for central banks and other regulators with supervisory responsibilities
- Objective: Preserve both economic and financial stability (aka: avoid the next financial/banking crisis)

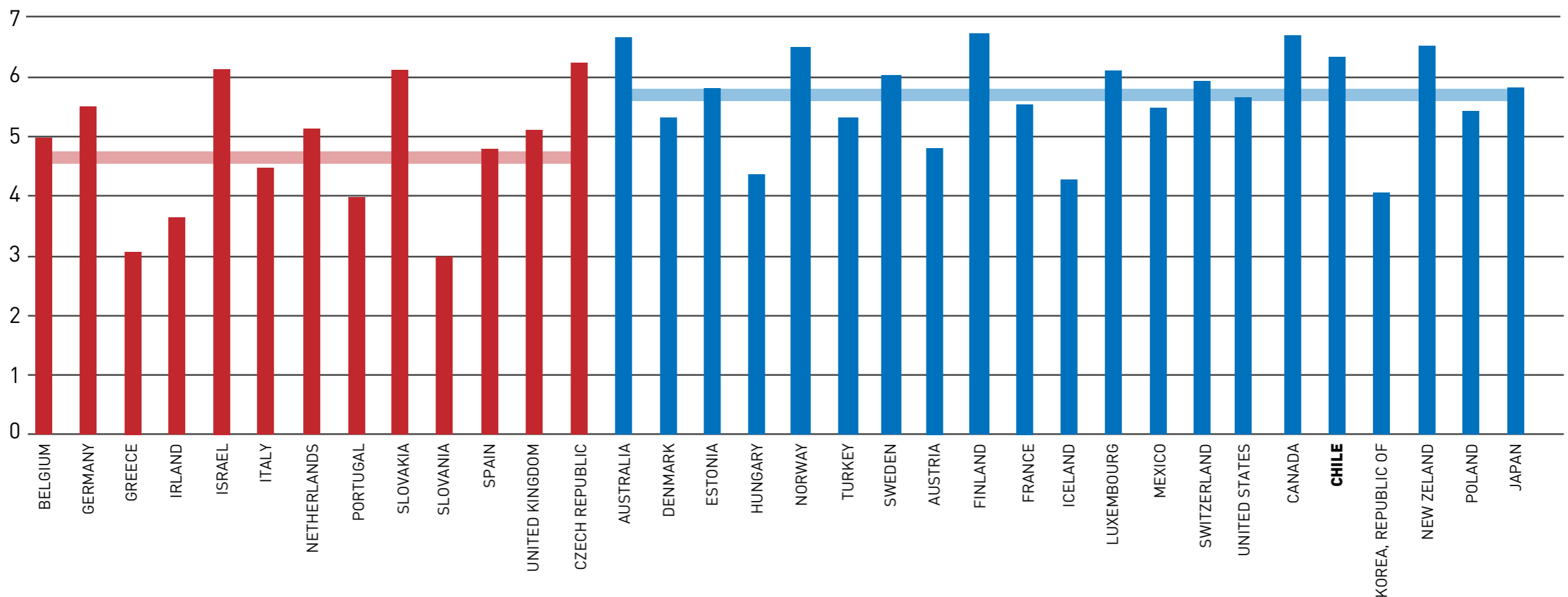
Question 1:

Banking supervision inside/outside the Central Bank.....Does it matter?

Soundness of Banks, OECD Countries (Ranking WEF):

Supervision Inside Central Bank (red)

Supervision Outside Central Bank (blue)



Question 1:

Banking supervision inside/outside the Central Bank.....Does it matter?

.....

- Not really

Question 1:

Banking supervision inside/outside the Central Bank.....Does it matter?

.....

- Not really
- There is no much evidence to conclude whether there is a best practice
- What it matters is a plain vanilla... good supervision



Question 2:

What should be good supervision?

Two pillars:

The obvious (necessary but insufficient)

- Operational independence
- Budgetary autonomy
- Accountability



Question 2:

What should be good supervision?

The challenging (now is becoming a must)

- Risk-based approach
 - Intrusive
 - Skeptical
 - Comprehensive
 - Corrective
- Coordination with other agencies
 - Lead Supervisor (conglomerates)
 - Financial Stability Councils



Issues for discussion

- **When supervision is inside the Central Bank**
 - Need for functional segregation between
 - Monetary/Financial issues. Macro-prudential policy
 - Supervisory issues: Micro-prudential policy
 - Financial (in)stability do influence monetary policy decisions (US evidence: Peek, Rosengren and Tootell, 2015)

Issues for discussion

- **When supervision is inside the Central Bank**
 - Separate committees?
 - Monetary Policy Committee (MPC) and Financial Policy Committee (eg., UK)
 - Prompt reaction on supervisory issues (eg., UK PRA)
 - The Case for Two Committees (Kohn, 2015)
 - Separate decision-making bodies essential with separate goals and instruments (Svensson, 2015):
 - In good times: Nash equilibrium rather than coordinated equilibrium (joint optimization)
 - In crisis: full cooperation and coordination



Issues for discussion

- **When supervision is outside the Central Bank**
 - Need for coordination arrangements with
 - Central Bank
 - Other agencies
 - Independence is a must (nobody challenges that monetary policy (central banks) should be independent)
 - Avoid political and industry pressures
 - Regulatory capture / Cultural capture



Issues for discussion

- **When supervision is outside the Central Bank**
 - Financial Stability Councils:
 - Members: Ministry of Finance, Central Bank, Financial Regulators
 - Forum for discussion and exchange of information, not decisions
 - Careful and transparent communications (minutes, reports, etc.)
 - It will lead in crisis



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