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Global Leadership in Financial Supervision Since 1998

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EVENT: High-Level Meeting on Banking Supervision for Improving Supervisory Processes

Co-organized by the Association of Supervisors of Banks of the Americas (ASBA), Basel Committee on Banking Supervision (BCBS), and the Financial Stability Institute (FSI)

INTRODUCTION

I am grateful for the invitation of ASBA, BCBS and the FSI to address your high-level meeting on Banking supervision for improving supervisory processes. It is a pleasure to see so many of my esteemed colleagues in beautiful Cartagena.

The topic of improving supervisory processes has deep relevance to my career experience: from deregulating the Swedish financial sector, managing Sweden's banking crisis in the early 90s, and launching FSAPs and technical assistance programs as a senior Director at the IMF, to simultaneously being the Governor of Riksbank while chairing the Basel Committee on Banking Supervision in the aftermath of the 2008 Global Financial Crisis, guiding Basel III to a gradual conclusion. In each role, I've faced the evolving complexities of financial systems and their supervisory challenges firsthand.

Today, as Chair of the Toronto Centre for Global Leadership in Financial Supervision (or simply, "Toronto Centre"), I continue in the world of supervision. Since 1998, Toronto Centre has trained more than 28,000 financial supervisors and regulators from 190 countries, teaching practical case studies across banking, insurance, pensions, and securities. I also bring you greetings from Babak Abbaszadeh, the CEO of Toronto Centre, who is well-known to many supervisory agencies in this region.

TORONTO CENTRE'S WORK IN LATIN AMERICA AND THE CARIBBEAN

Toronto Centre's work in Latin America and the Caribbean has been significant, where throughout our history we have had strong relationships with supervisory authorities in several countries including Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Honduras, Jamaica, Mexico, Panama, Peru, and Paraguay to name a few. Since 2012, Toronto Centre has delivered over 300 programs in the region, training more than 9,000 officials. These capacity building programs help supervisors navigate a wide range of challenges—from crisis preparedness and risk-based supervision to addressing

supervisory challenges of climate change, financial crime, and technological disruption.

RECOGNIZING PROGRESS AND CHALLENGES

The progress in financial stability and resilience in Latin America and globally has been significant, especially in response to crises like COVID-19 and geopolitical uncertainties. However, this progress brings with it the need for constant vigilance.

Supervisors must continue focusing on their core mandates, which is to ensure the safety and soundness of financial institutions while combating misconduct and promoting financial inclusion. Financial stability is a public good.

However, a fundamental question that often gets overlooked but must always be asked is this: Why supervise? The answer: to break the vicious cycle of weak supervision, which contributes to financial crises, instability, limited access, weak governance, and suboptimal economic growth. Weak supervision can stem from a lack of authority or an inadequate framework or both, which leads to the inability to act or the unwillingness to act.

In some jurisdictions, these factors are further complicated by the lack of independence of supervisory institutions and insufficient legal protection for supervisors acting in good faith. In this context, capacity-building is essential to equip supervisors with the critical thinking and leadership skills necessary to effectively oversee the financial sector and to effect change in their institutions and country.

This point is important as we look at the emerging risks in the financial sector and their impact on supervision.

EMERGING RISKS IN THE FINANCIAL SECTOR

The global financial landscape is transforming rapidly. Latin America and the Caribbean, despite their resilience, face vulnerabilities from macroeconomic imbalances. Supervisors must also contend with geopolitical uncertainties, the rise of non-bank financial intermediaries, financial crime, cyber threats, climate risks, and an evolving technological landscape – including the introduction of various digital “coins” that claim wonderful features probably too good to be true.

Supervisors must proactively adapt to these evolving risks to ensure the region’s financial systems remain resilient, inclusive, and capable of supporting sustainable growth. These risks are often interrelated. Let’s briefly look at each.

GEOPOLITICAL RISKS AND UNCERTAINTIES

In a multi-polar world, geopolitical tensions exacerbate economic trends, migration issues, and complexities in financial markets. While supervisors are not diplomats and should not be expected to have influence on the cause or solution of these risks, still they cannot ignore the potential impact of global events on financial stability and payment systems. Therefore, monitoring geopolitical risks and implementing forward-looking measures are critical to maintaining stability. Early intervention remains key.

TECHNOLOGY IN SUPERVISION

Technology is a double-edged sword. Innovations like FinTech and AI, along with BigTech's entry into financial services, challenge traditional banks but offer opportunities for efficiency, consumer choice, and inclusion. However, they also introduce risks such as cyber threats and systemic vulnerabilities, particularly when non-regulated entities operate outside the traditional perimeter.

Supervisors must be vigilant in keeping pace with technological developments. However, while technology enables substantially better interpretation of vast amounts of data and better compliance and supervision, tools like RegTech and SupTech cannot replace human judgment. Supervisors should maintain critical thinking when assessing risks. Supervisors must be aware of the limitations and increased risk areas from AI, and not be intimidated or deceived by financial institutions' use of technology. They must insist on financial institutions' proper and ethical use of technology and AI.

A common complaint might be that supervisors simply do not have access to technology and are under-resourced compared to the financial institutions they supervise. Yet nothing stops supervisors from turning to old-fashioned face-to-face interviews with executives and boards of financial institutions to hold them accountable on their use of technology and its impact on the firms' prudential and market conduct. Supervisors must use critical thinking to assess risks and make decisions, even when faced with complex algorithms and data-driven models.

We should not accept a world where AI makes supervisory decisions that affect public welfare. Accountability remains a core function of human supervisors. Toronto Centre's courses emphasize the integration of technology into supervision while maintaining the human and ethical elements and accountabilities. Supervisors must use technology responsibly, ensuring financial institutions do the same.

FINANCIAL AND CYBER CRIMES

Evolving technology amplifies financial crimes, including money laundering, terrorism financing, and cybercrime. No jurisdiction is immune to these threats,

which undermine confidence, distort markets, and increase systemic risk. Supervisors must take a comprehensive approach, as cybersecurity and AML/CFT require specialized skills that have not been part of the traditional supervisory perimeter.

CLIMATE RISK AND FINANCIAL STABILITY

The financial sector and its supervisors have been late in addressing climate risk. However, change is occurring. The Basel Committee's recent update of its Core Principles now includes climate as a key risk of global importance to the financial system to be incorporated into FSAPs. The Basel Committee has now aligned with the International Association of Insurance Supervisors (IAIS), the International Organization of Securities Commissions (IOSCO), the International Organization of Securities Commissions (IOSCO), the International Sustainability Standards Board (ISSB), and the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) to recognize climate as a mainstream risk.

Climate risk threatens financial stability through physical damage, and through the risks arising from policy measures and shifting market preferences. It increases credit, insurance, market, and operational risks for financial institutions, which may in turn pose systemic threats and/or lead to reputational and legal liabilities. Good risk management by financial institutions – including stress testing, supervisory guidance and intervention, and particularly mandatory disclosures – are essential to mitigate these risks and to enhance economic resilience and sustainability.

Since 2016, Toronto Centre has been a pioneer in offering capacity-building programming on this subject even prior to the involvement of standard setters. Today, we are an implementation partner of IAIS, IOSCO, and the NGFS in climate risk training. Climate stress tests are part of these programs.

FINANCIAL INCLUSION AND STABILITY

Financial stability and inclusion often seem like conflicting goals. However, they are interconnected. The IMF research suggests that expanding credit access without proper supervision increases risks. Investing in high-quality supervision and financial literacy pays dividends as inclusion expands.

Dividends can be significant. A case in point is Latin America, where despite progress in increasing access to finance since the COVID-19 crisis, low banking penetration rates remain a major obstacle to development. Some 122 million people in the region (approximately 26% of the population) were still unbanked in 2021, according to the World Bank data.

Digital services are critical for inclusion but must be supported by strong consumer protection measures. Supervisors must have the tools to balance inclusion with risk management.

OPPORTUNITIES AND COORDINATION

The complexities of modern finance demand coordinated responses. Regional and international collaboration, through platforms like ASBA, BCBS, and FSI, enables shared learning and collective responses.

We cannot afford to take our eyes off the ball of good supervision. Let's tie the various strands of these remarks together by coming back to the basics:

First, supervision is not about technologies or the latest emerging risk, or outsourcing judgment to AI algorithms – it is about people. It's about those conducting supervision and those affected by it.

Second, the fundamental economic features of the financial sector do not change when technologies change. Let's remember, the demise of Silicon Valley Bank and Credit Suisse in 2023 was not due to technology or exotic toxic assets. It was about people's judgment and basic supervision. As supervisors become inundated with more data, faster developments, and new business models, they need to distinguish between the "fundamentals" and the "noise."

Third, we must recognize that supervision is not a one-size-fits-all process. Each jurisdiction and financial institution operates within a unique context, with distinct risk profiles and governance structures. Effective supervision requires critical thinking and a nuanced understanding of these differences. The preconditions matter, and sometimes matter a lot. This is particularly so in cases where, to be diplomatic, the preconditions are unfavourable.

CONCLUSION

In closing, the challenges we face require more than dedication and innovation – they require action. I urge organizations like ASBA, FSI, and Toronto Centre to deepen their partnerships to build supervisory capacity and safeguard stability.

Let us work together to equip supervisors in Latin America, the Caribbean, and beyond for today's challenges and those yet to come. Basic risks and supervisory fundamentals do not change; they demand coordinated, accountable action in this increasingly digital world.

I look forward to our discussions and to forging stronger partnerships for the public good.

Thank you.