

**World Bank - IOPS
Risk Based Supervision
Project**

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What is Risk Based Supervision?

- Application of Standards/Criteria Based on Assessment of Relative Risk of Entity
 - Capital and Reserve Requirements
 - Variable Funding Standards
 - Variable Insurance/Guarantee Premia
- Scoring Methods for Type and Depth of Supervisory Attention
- Case Selection or Targeting Methods

Types of Risks

- Financial
 - Volatility of Assets
 - Asset Liability Match
- Operational
 - Quality of Management
 - Internal Controls
 - Principal Agent Alignment
- Credit
 - Status of Fund Sponsor or Manager
 - Probability and Scope of Claim on Guarantee

Motivations for RSB

- Utilize Market Forces in Supervisory Process
 - Align Costs With Funds Imposing Greatest Risk
- Focus Interventions on Areas With Greatest Needs
- Allocate Scarce Supervisory Resources
- Address Large Number of Funds

Objectives of Project

- Description of Range of Methods
- Analysis of Relationship Between Design and Environment
- Preliminary Assessment of Effectiveness
- Integration with Policy and Strategic Planning of Supervisor

Potential Product/Outcomes

- Descriptive Paradigms – Relationship of Methods to Purposes and Environment
- Basis for Formulation of Principles and Standards
- Information Exchange and Technical Assistance to New or Evolving Supervisors

Organization and Schedule

- Case Studies of 6-8 Countries
 - End of Calendar 2005
- Paper on Cross National Comparisons
 - Early 2006
- Analysis of Methods and Environment
 - Mid to Late 2006

Case Studies

- World Bank Effort (In Process)
 - Netherlands
 - Denmark
 - Australia
- IOPS Potential Country Studies (w/ WB Grant)
 - Mexico
 - Canada
 - Germany
 - South Africa
 - US
 - UK
 - Kenya

Case Study Outline

- Description
- Motivations
- Adoption Process
- Strategic Framework
- Organization
- Methods and Procedures
- HR Management
- Outcome Measures and Evaluation
- Costs