

Panel II: Banking Supervision

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Vittaladas Leeladhar, Deputy Governor, Reserve Bank of India
Nobuyoshi Chihara, Deputy Commissioner, Financial Services Agency (Japan)
Nor Shamsiah Yunus, Assistant Governor, Central Bank of Malaysia
David Scott, Manager, World Bank (moderator)

The second panel further developed a point made in the opening discussion, namely that one significant legacy of the Asian financial crisis is the recognition of the key role banks and financial institutions play in the overall health of national economies. Due to this important role in the economy, a strong supervisory and regulatory regime is of critical importance.

The panel began with a discussion of the Basel Committee on Banking Supervision's 25 Core Principles for Effective Banking Supervision. Panelists agreed that there was uneven application of these principles in banking supervision practices in Asia. Panelists noted that weaknesses in the legal, accounting, and macroeconomic policy made it difficult for some countries to implement enforceable and effective banking supervision regimes.

Some discussion focused on the challenge of introducing global standards in countries such as in India where the ongoing role of government ownership (75% of banking business is conducted by government-owned institutions) has not fostered implementation of market-based governance principles. That situation is exacerbated by the challenge of keeping supervisory practices up to date with rapid changes and innovations in the global marketplace. With new products coming into the market every day, supervisors must be able to understand and measure the risk exposure of these products in order to ensure that financial institutions are operating in a safe and sound manner. Due to the shortage of trained and experienced bank supervisors in many Asian countries, playing catch-up with the market is an ongoing problem for supervisory and regulatory agencies in Asia.