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AGENDA ITEM 8

**FIFTH MEETING OF
THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY BUILDING**

**MONTREAL, CANADA
TUESDAY, 9TH MAY 2006
09.00 – 11.45**

Discussion on training in financial services regulatory agencies

**Notes prepared by David J.S. Winfield
Executive Director**

The Toronto International Leadership Centre for Financial Sector Supervision

Background

Those who supervise and regulate banks, insurance companies and securities markets have key roles to play in ensuring the smooth functioning of the financial sector and the health of their countries' economies. Stable and efficient financial markets have a direct impact on trade and investment, economic development and growth, jobs and wealth creation, and poverty alleviation.

Indeed, the World Bank itself has said that it is now widely recognized that there are strong positive linkages between the financial sector and economic development. In the first place, a well-functioning (well-supervised and regulated) financial sector is essential for private sector-led growth, which is a significant driver of poverty reduction. Second, financial crises burden countries with crippling costs, set development back, and increase poverty. Third, a well-functioning financial sector provides the poor with access to credit and other financial services, allowing them to smooth consumption flows and take advantage of income-generating opportunities. Effective supervisors and regulators are key components in these efforts.

At the same time, the challenges faced by financial sector supervisors are not well known by those outside the purview of this highly specialized domain. Supervisors must watch with care volatile international capital flows, the danger of contagion from problems outside national borders, market liberalization, new rules and regulations, and the impact of technology. Supervisors must also manage domestically generated crises, and deal with problem-plagued financial institutions or various critical situations that have a direct impact on the institutions they supervise. These challenges create a supervisory environment in which risks are great, problems have a potential to spread quickly, and decision-making is increasingly more difficult and complex. Countries are finding it more challenging than ever before to ensure a strong, well-regulated financial sector.

The challenge is greatest for those at the top levels of regulatory institutions. The development of international supervision standards has helped to define the goals that all regulatory institutions have to reach, but has also created growing pressures on supervisors to show leadership in moving their agencies towards achieving these goals as quickly as possible.

The Toronto Centre's Origin and Focus

It was in the wake of the Latin American and Asian financial crises that the idea of the Toronto Centre was conceived. In 1997, its founders wanted to create an institute that would complement and not compete with other organizations which were offering a broad range of technical training for supervisors and regulators. The Toronto Centre was to focus on, and continues to do so today, strengthening the leadership capacity of supervisors in order to provide them with the skills and competencies to enable them to strengthen their agencies and to tackle difficult and often ambiguous supervisory problems.

The Toronto Centre:

- Is the only organization in the world that delivers unique programs that equip senior regulators and supervisors from around the world with the leadership capacity to meet the challenges of today's financial environment, empowering them to transform their agencies and make vital changes that contribute to the creation of stronger, sounder, safer, more effective financial systems that provide better services to an increasing proportion of the population;
- Focuses on capacity building and on the development of leadership excellence in financial sector supervision and regulation, enabling supervisors and regulators to develop and execute a plan of action on critical issues in their markets;
- Provides financial sector supervisors and regulators with the tools and techniques needed to bring structure and logic to the management and handling of issues and crises, as well as the ability to apply process to analysis, resolution of problems and decision-making;
- Uses an interactive learning strategy designed to foster open discussion of challenging financial sector oversight issues in a risk-free setting;
- Brings a leadership perspective to financial sector oversight, while being guided by international standards of financial sector supervision and regulation.

Toronto Centre Scope

The Toronto Centre operates globally and provides leadership programs for banking and insurance supervisors and securities markets regulators.

Programs are delivered for individual countries, for regions in association with regional associations of supervisors and/or regulators, and internationally, in Toronto, at the Schulich School of Business at York University.

In addition, the Centre has developed a program for senior supervisors from the three sectors called the *Executive Forum*. Participants complete a *Strategic Scorecard* assessment designed to help identify the strengths and vulnerabilities of their agencies thereby contributing to the identification and prioritization of strategic needs. The program is designed to stimulate lively exchanges among peers on current complex and controversial issues through brief presentations by panels of experts followed by structured exercises, debate and discussion, and informal networking activities. While multi-sectoral approach is preferred, programs can be developed for one sector, for individual countries and regions, and for one to three days duration.

Since its inception the Toronto Centre has had close to 1,200 senior supervisors (Associates) through its programs and another 1,000 or so have been exposed to its processes and methodologies in presentations and action planning activities through joint programs and special presentations organized with, e.g., IOSCO, the Financial Stability Institute, the Monetary Authority of Singapore.

Of the 1200 Associates 34% are from Asia, 27% are from Latin America, 19% from Europe, 13% from Africa, 5% from the Middle East, and 2% from North America.

Toronto Centre's Programs

The Toronto Centre incorporates a number of key adult learning approaches in its leadership programs. These include:

- **Leadership Competencies:** Internationally accepted models are used to develop leadership skills; specifically, John Kotter's leading change model and Jay Conger's art of persuasion and stakeholder analysis framework.
- **Course Materials:** Materials developed for and presented at Toronto Centre sessions are designed to develop leadership skills and are delivered by current and former regulators (Program Leaders) who were actually involved in the situations presented. Course materials consist of the following:
 - **Interactive case studies:** Case studies deal with actual situations involving systemic crises, managing troubled institutions and institution building. The case study approach enhances participants' ability to:
 - Identify and manage relationships with relevant stakeholders;
 - Use analytical tools and strategic planning to implement necessary actions;
 - Understand and work with country-specific public and private sector governance arrangements and relationships.
 - **Vignettes:** Vignettes are situational "snapshots" of supervisory issues and are designed to elucidate some of the key underlying issues in the cases studies such as accounting standards, corporate governance, money laundering etc.
 - **Special Topic Presentations:** Leaders in financial sector oversight are invited to deliver presentations on topical supervisory issues that are not covered in the case studies or vignettes.
 - **Action Planning:** Action Planning is a process that is unique to the Toronto Centre and is used to reinforce leadership skills development during a one-week session. Participants develop action plans to deal with a specific supervisory challenge in their own countries. Throughout the week, participants have the opportunity to review and refine their plans through consultation with their peers and with Program Leaders. They are encouraged to make a commitment to take the necessary action to implement their plan when they return to their country.

Toronto Centre Partners

The Canadian Government, the World Bank, and the Schulich School of Business at York University in Toronto founded the Toronto Centre in 1997. The Centre was created in

response to the perceived need for the development of effective leadership in the supervision of the banking and insurance sectors, and in the regulation of securities markets. The Toronto Centre has received financial support from the Bank for International Settlements (BIS) and Canadian banks. It continues to receive core support from the Canadian International Development Agency and the IMF; project support from the Inter American Development Bank (IADB), USAID, the ATTF, Luxembourg, international accounting firms and other organizations; and support in-kind from the IMF, the World Bank, the Office of the Superintendent of Financial Institutions (OSFI), the Ontario Securities Commission and the Schulich School of Business. The Toronto Centre works in close collaboration with the Financial Stability Institute of the BIS to deliver joint programs, and it organizes regional and country programs with local partners, specifically in Asia with the ASEAN Insurance Training and Research Institute (AITRI), SEACEN, Bank Negara Malaysia and the Monetary Authority of Singapore.

Toronto Centre's Relations with APEC

The Toronto Centre has extensive relations with organizations in the APEC region. The Executive Director of the Centre was invited to participate as a panelist on the APEC Finance and Development Program and attended the meeting in Mexico in 2002. At the invitation of Dr. Liu, he attended and spoke to the annual Forum in Shanghai in October 2003.

Our principal partner for the development and delivery of programs for bank supervisors in the Asian region is SEACEN. The Executive Director, Dr. Subarjo, is a member of the Toronto Centre Banking Advisory Board. In the field of insurance supervision we are in the process of establishing a strategic partnership with AITRI.

We have developed country programs for bank and insurance supervisors for Bank Negara Malaysia and we are in discussion with the Monetary Authority of Singapore (MAS) about the development of a country program for securities regulators.

On the other side of the Pacific, the Toronto Centre is very active in Latin America in the development and delivery of country and regional programs for bank and insurance supervisors and securities markets regulators.

Conclusion

At recent meeting of the Board of Directors of the Toronto Centre to review the Centre's strategy and priorities it was agreed that the Toronto Centre should continue to:

- Focus on leadership skills development for senior supervisors and regulators from banking, insurance and securities markets, including such skills as strategic thinking and decision-making, problem solving and implementation, and with special emphasis on effective stakeholder management;
- Develop program content with less stress on systemic issues and more on current issues facing supervisors from developing and emerging markets;
- Focus content on traditional supervisory responsibilities for safety and soundness, etc., but course content should also sensitize supervisors to larger issues of market access, important to an economy's overall growth and stability;
- Develop a sustainable program for Associates (graduates) and for post-program follow-up. This should include additional one-week leadership sessions focusing on implementation skills, and introducing new competencies, as well as improved

communications with Associates, in which the Centre would seek their views on new and emerging issues.

The Board of Directors also emphasized the critical importance of continuing to develop regional and country programs, maintaining existing partnerships and building new partnerships for hosting and sponsoring programs.

Since 2000, Asia has been a priority for the Toronto Centre and will continue to be so. We look forward to continuing to build our already close ties with SEACEN, with the MAS and with Bank Negara Malaysia. We are delighted to have been invited to partner with AITRI for the production of programs for insurance supervisors from the region and anticipate a productive and mutually beneficial partnership. We will be on the lookout for new opportunities to deliver programs to supervisors and regulators throughout the region and to build partnerships with other supervisory organizations as their human resource capacity needs become clear.