

Letter from the Executive Director

Dear Colleagues and Readers

The IMF's most recent Regional Economic Outlook for Asia and Pacific, published on 3 May 2016, states:

“Asia remains the most dynamic part of the global economy but is facing severe headwinds from a still weak global recovery, slowing global trade, and the short-term impact of China's growth transition. Still, the region is well positioned to meet the challenges ahead, provided it strengthens its reform efforts. To strengthen its resilience to global risks and remain a source of dynamism, policymakers in the region should push ahead with structural reforms to raise productivity and create fiscal space while supporting demand as needed.”

Earlier this year there was significant volatility in regional financial markets. While conditions have since stabilized, this episode reminds us that periods of instability and crisis can sometimes arise suddenly and unpredictably from a variety of circumstances, including external factors such as those mentioned by the IMF. Ongoing and deepening regional financial integration will add challenges in dealing with future periods of instability and crisis impacting the Asia Pacific region.

From a financial stability perspective, the current non-crisis period is a good time for Asia Pacific jurisdictions to assess whether:

- National safety net authorities such as central banks, other financial sector supervisors, finance ministries, and deposit insurers are adequately prepared for any periods of turbulence or crisis that could arise, including situations that could have a cross-border impact.
- Their bank supervision methods are effective in detecting and stopping, at their incipient stages, unsound practices and excessive risk-taking that could jeopardize the safety and soundness of individual banks, or present systemic stability concerns.

Several articles have been selected for inclusion in this edition of the *Journal* that relate to such assessments.

Mr. J.P. Sabourin, a highly-respected practitioner and leader in developing international standards for deposit insurance systems and safety net arrangements, has provided an article covering considerations in developing effective crisis and resolution arrangements, especially dealing with cross-border risks and risks associated with large and complex institutions. We have also included two articles providing perspectives on enhancing the effectiveness of bank supervision by regulatory experts who have first-hand experience in dealing with multiple crises. The first article is by Thomas M. Hoenig, Vice Chairman of the U.S. Federal Deposit Insurance Corporation and

former President of the Federal Reserve Bank of Kansas City and member of the Federal Open Market Committee. Dr. Hoenig discusses several key elements that he believes are essential to achieving an effective supervisory process. The second article is by Jonathan Fiechter and Michael Zamorski, who discuss the need to emphasize “intrusive” on-site supervision in assessing and controlling banking system risk.

Rapid growth in financial technology and cyber security vulnerabilities are increasingly being recognized as important financial stability risk factors. Financial institutions have taken significant steps to bolster security efforts in recent years. However, banks and other financial services firms continue to be challenged by the speed of technological advances and the increasingly sophisticated nature of cyber threats. We have included an essay by Messrs. Karl Frederick Rauscher and Didier Vertichel on cybersecurity challenges, which focuses on technological advances in ensuring the integrity of customer authentication.

At the end of April 2016, Bank Negara Malaysia Governor Zeti Akhtar Aziz retired after a thirty-four year career of distinguished service with the bank, including sixteen years as Governor. She also spent the first six years of her professional career as a Senior Economist at The SEACEN Centre. I would like to take this opportunity, on behalf of SEACEN, to thank Governor Zeti for her many contributions to central banking in the region, and her strong support to the growth and development of SEACEN and its mission.

In 2014, Governor Zeti was selected to deliver the prestigious Per Jacobsson Foundation Lecture in conjunction with the Annual General Meetings of the Bank for International Settlements. We have included her seminal lecture in the *Journal*, as it provides outstanding insights with respect to challenges in the management of financial crises that arise from increased interconnectivity of national financial systems.

Dr. Hans Genberg
Executive Director
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