



Risk-Based Examination Practices

USAID-Funded Economic Governance II Project

Presented To: CBI Bank Supervision

Date: July 2008

This document was prepared by:

Giovanni Recchia
Senior Consultant

BearingPoint

International Zone

Baghdad, Iraq

E-mail: john.recchia@bearingpoint.com

This document is protected under the copyright laws of the United States and other countries: it has been prepared by BearingPoint, Inc. ("BearingPoint") Technical Advisors and/or contractors working directly for BearingPoint under the auspices of the U.S. Agency for International Development ("USAID") contract number 267-C-00-04-00405-00. This document and all accompanying pages are strictly for the use of USAID in support of their own consideration regarding the subject matter contained herein. Except where explicitly stated otherwise, the following information was prepared on the basis of data that is publicly available or was provided by USAID: it has not been independently verified or otherwise examined to determine its accuracy, completeness or financial feasibility (where applicable). Neither BearingPoint, USAID nor any person acting on behalf of either assumes any liabilities, expenses (including attorney's fees and legal expenses) fines, penalties, taxes or damages (collectively "liabilities"), resulting from the use of any information contained in this document.

© 2007 BearingPoint, Inc. All rights reserved.

Overall Objectives:

- Concentrate available staff on banks with higher risk factors.
- Be able to take supervisory action sooner for banks that need it.
- Reduce examination burden on well run banks.
- Operate in a more efficient manner.

How does risk-based supervision work?

- Coordinated program between on-site and off-site examination.
- Banks are prioritized according to a number of risk factors.
- Staff allocated based upon priority.
 - More staff for banks with higher risk factors.
 - Fewer staff for banks with lower risk factors.
- Examination scope.
 - High priority banks may receive a more thorough examinations.
 - Low priority banks may receive a less detailed examinations.
- Examination scheduling.
 - High priority banks may have more frequent examinations .
 - Low priority banks may have less frequent examinations .

Experience :

- Each Bank Supervision Department will make its own risk-based program.
- Risk-based programs change over time.
- US approach is typical.

How can you prioritize banks?

- Camel rating
- Off-site rating
- Change in Camel ratings
- Size
- Management stability
- Quality of internal audit
- Local economy
- Type of specialty
- Change in operations
- New lines of business

Until about 1976 in the US:

- Each bank received an examination every year.
- Each bank received the same type of examination.

Over the last 30 years in the US:

- Banks were prioritized, but how they were prioritized changed over time.
 - CAMEL
 - CAMEL and size of bank.
 - CAMEL, size of bank and off-site analysis.
 - Later took into account many factors.
- Examinations were shortened for low priority banks:
 - Generally examine fewer loans.
 - Completed fewer examination documents.
 - Started to focus more on examine of bank policies.
 - Performed fewer audit-type activities.

Over the last 30 years in the US (continued):

- High priority banks were examined at least once a year.
- Length of time between Examinations of low priority banks changed.
 - Examinations conducted every 18 months to every 5 years.
- There was an expanded use of off-site monitoring and off-site analysis.
 - Hired more off-site analysts.
 - Performed more types off-site analysis.
 - Offsite review were targeted to bank size.
 - Utilized computer systems to monitor change in bank conditions.
 - Produced off-site ratings and rankings.
 - Results of off-site analysis and monitoring were used to change bank examination interval.

Over the last 30 years in the US (continued):

- Examiner's required to complete new tasks:
 - Pre-Examination planning was increased.
 - Decision trees for examination scope were developed.
 - Examination time budgets were prepared.
 - Examinations became more targeted.
 - More work was completed outside of the bank.
 - More co-ordination with banks regarding examination.

What was learned about risk-based supervision.

- Communication between On-site and Off-site is critical to success.
- Banks should not go more than 18 months without an Examination.
 - Quality of prudential report data declines.
 - Difficult to determine policy changes.
 - Supervisory actions may not be timely or effective.
- Quality of Offsite Reviews is critical.
- Many factors need to be taken into consideration to prioritize banks.
- Shortened examinations must be well planned and conducted.
- On-site and off-site both need flexibility to look deeper into bank's condition.
- Case Manager approach may help maintain knowledge of bank risk.
- In-house Examiners may sometimes be required.

Thank you.

End of Presentation

During 1980's (continued)-

- By 1983:
 - CAMEL 1 and 2 banks were examined every 36 months instead of 18 months.
- By 1985:
 - CAMEL 4 and 5 banks were examined every 12 months to 18 months.
 - CAMEL 3 banks were examined every 12 months to 24 months.
 - CAMEL 1 and 2 banks were examined every 36 months
 - Small size CAMEL 1 and 2 banks could be examined once every 5 years.
- By 1986:
 - CAMEL 1 and 2 banks examined every 24 months.
 - CAMEL 3, 4 and 5 banks examined every 12 months.



General Instructions

- **Spell out all words represented by acronyms the first time, then use acronyms thereafter. Do not assume readers will know what the acronyms mean. This document may have wide-circulation.**
- **Italicize all document references where a document can exist as a stand-alone publication (e.g. *2004 Summer Survey on Iraqi Electricity Use*. (Do not use quotation marks in these instances).**
- **The first word in all bullet statements should be capitalized.**
- **The first words in a bullet list should all be consistent (i.e. for active verbs: "Created", "Implemented", "Drafted"; or articles: "A", "The", "An").**
- **All bullet points should end with a period. The second to last point should end with "; and".**
- **Do not abbreviate BearingPoint as "BE" or "BP." Spell out the company name each time.**
- **Represent currency as \$6 million USD or ID 25,000, etc.**
- **Spell out whole numbers below 10. Use numerical values for 10 and above (e.g. five, nine, 15, 650). Avoid following the word for a number with a figure in parentheses for the same number. It's redundant. [i.e. The contract will run out in eight (8) days].**
- **Please use complete sentences where the subject is understood.**
- **Use the following date format: DD Mon YY (where the month is represented by its appropriate three letter abbreviation)**
- **Do not include names of Iraqi counterparts, only titles and positions.**
- **When cutting and pasting from other documents, utilize the <Paste Special> <Unformatted Text> feature: this will prevent transfer of hidden formatting code.**
- **Ask your PMO office if you have major formatting difficulty or questions.**