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Looking ahead and preparing for a post-covid world

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CMF's Conference on Development and Financial Stability
Discussion Panel "Financial Stability in times of change"

There is clearly **no room for complacency**, but **regulatory reforms have helped to cushion a shock** of a magnitude never seen before

Main lessons learnt from this crisis

1

Prudential regulation matters

We did not see a recurrence of the problems faced during the GFC.

2

Avoid a one-size-fits-all approach

Design response strategies recognizing the local context.

3

Adaptative/Pragmatic response

To adapt quickly to the dynamic nature of crisis situations as they develop.

4

Strengthening operational resilience

To mitigate cyber incidents, technological failures, natural disasters or pandemics.

5

The power of data

Traditional indicators are no longer informative.

6

Ensure consumers are treated fairly

Effective market conduct supervision to maintain transparency and value proposition.

7

Striking a balance between procyclicality and risk revelation

IFRS9 could trigger a sharp increase in Loan Loss reserves when a recession hits → Countercyclical buffers are deemed to be necessary.

8

Heuristic approach for stress testing

“Black swan” events (large, unforeseen, random) are likely to occur.

9

Supervision can be carried out remotely

The crisis has redefined the supervisory toolkit and what constitutes meaningful supervisory activities.

10

Change catalyst

COVID-19 is likely to accelerate many of the trends which were already under way before the crisis.

11

Institutional framework

Integrated supervision and increased cross-border coordination to avoid “turf wars”, underlap and overlap.

The SFC has leveraged from its institutional framework to maximize the synergies needed to enhance our supervisory capacity during exogenous shocks

- ✓ Risk-Based Supervision.
- ✓ International standards (BCBS, IOSCO, IAIS, FSB, IOPS, FATF).
- ✓ Financial Stability, Consumer Protection, Market Integrity.
- ✓ Joint work across oversight functions.

**2016
Decree 184**
The SFC's structure was modified

Decree 2399
To enhance supervisory capacity

- ✓ Analytics and Research.
- ✓ Fintech, Hub, Sandbox, Green Finance.
- ✓ Resolution group.
- ✓ Strengthening consumer protection (market conduct supervision).

**2019
Law 1870 of 2017 came into force**
Expanded the scope of Supervision to Financial Conglomerates (13).

- ✓ Extensive use of Risk-Based Supervision.
- ✓ Comprehensive knowledge of significant activities.
- ✓ Identifying the risk profile of each institution and their inherent risks.
- ✓ Introduced a High-level division focused on consumer protection.



Facilitates decision-making process and coordination to undertake preventive actions.



Allows to account for the existing spillovers and contagion risks.



Provides a comprehensive view of the financial system and its risks.



Allows to prevent crises and facilitate crisis management.



Reduces costs by leveraging from economies of scale.

Avoids underlap and overlap.



We will likely need to show the **same agility in devising a response that meets the demands of the new normal** while **building on the lessons learnt** from this episode

Designing the new normal



Strengthen prudential parameters avoiding procyclicality



Promoting effective coordination



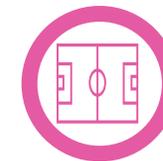
Fostering financial inclusion



Embracing innovation



Meaningful supervision - Proportionality



Leveling the playing field
(Same activities same rules)

Digital Transformation

- 100% digital financial products and services.
- Open banking.
- More efficient payment systems.
- Greater digital coverage.

Information as value proposition

- Analytics.
- AI.
- BigData.
- Digital ethics - privacy and data ownership.

Behavioral and Flexible Models

- To model customer's responses under increased uncertainty.

Access to New Funding Sources

- Alternative financing (crowdfunding).
- Capital markets not only for big corporations but also for SMEs.

Climate and Social Risks

- Stress test.
- Risk management.
- Promote sustainable finance.

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