

Financial Sector Assessment Program

of the International Monetary Fund and the World Bank

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Financial Sector Assessment Program

The Financial Sector Assessment Program (FSAP), established in 1999, is a comprehensive and in-depth analysis of a country's financial sector.

It is a key instrument of the IMF's surveillance and provides input to the Article IV consultation*.

**Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies.*

In jurisdictions with financial sectors deemed by the IMF to be systemically important, financial stability assessments under the FSAP are a mandatory part of Article IV surveillance, and are supposed to take place every five years.

For all other jurisdictions, participation in the program is voluntary.



FSAP in developing and emerging countries

In developing and emerging market countries, FSAPs are conducted jointly by the IMF and the World Bank.

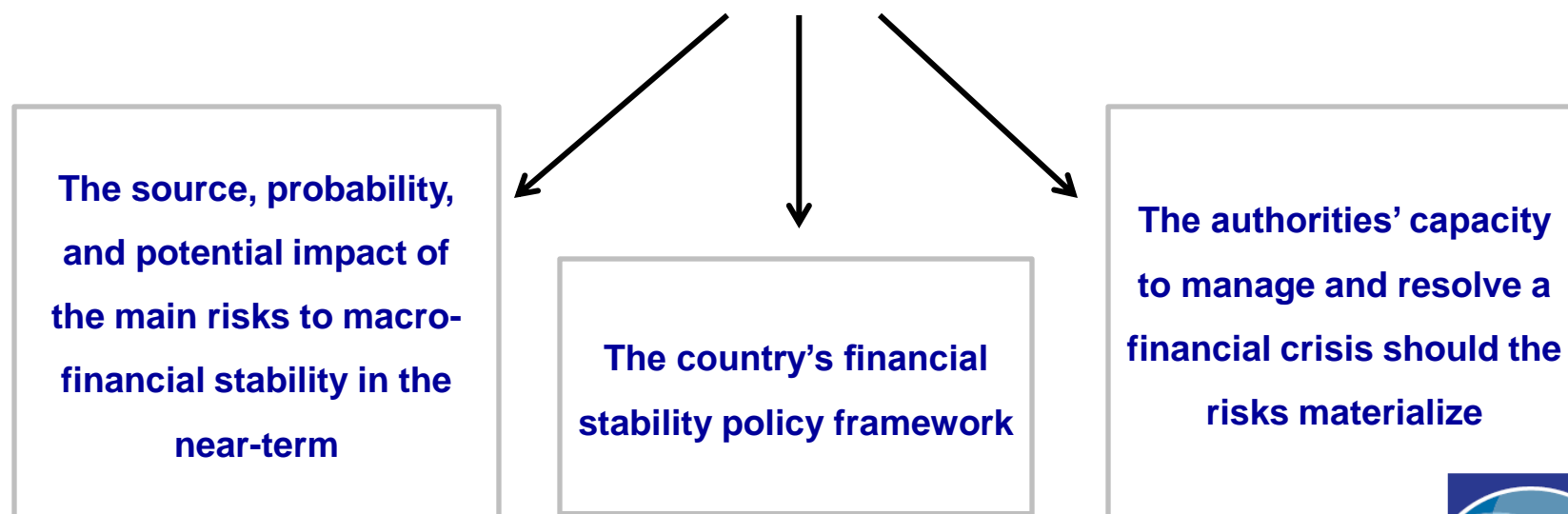
In these countries, FSAP assessments include two components



Each individual country's FSAP concludes with the preparation of a Financial System Stability Assessment (FSSA), which focuses on issues of relevance to IMF surveillance.

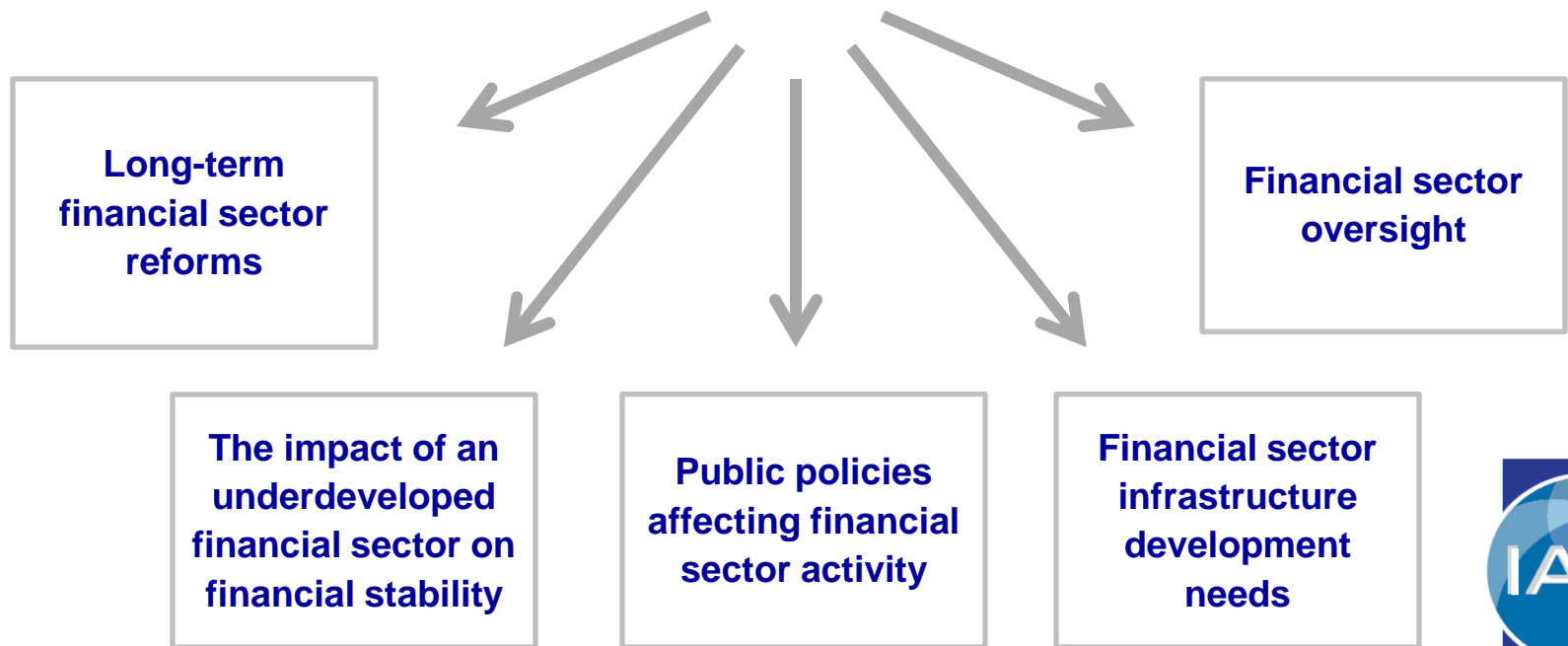
Financial Stability Assessment

Whether conducted in the context of a joint IMF-World Bank FSAP or on a stand-alone basis as a “stability module” with respect to developed countries, it covers the evaluation of three components:



Financial Development Assessment

It focuses on medium- to long-term needs for the deepening and strengthening of the financial sector, and address major weaknesses affecting the sector's efficiency, soundness, and contribution to long-term growth and social development. These may include assessments of:

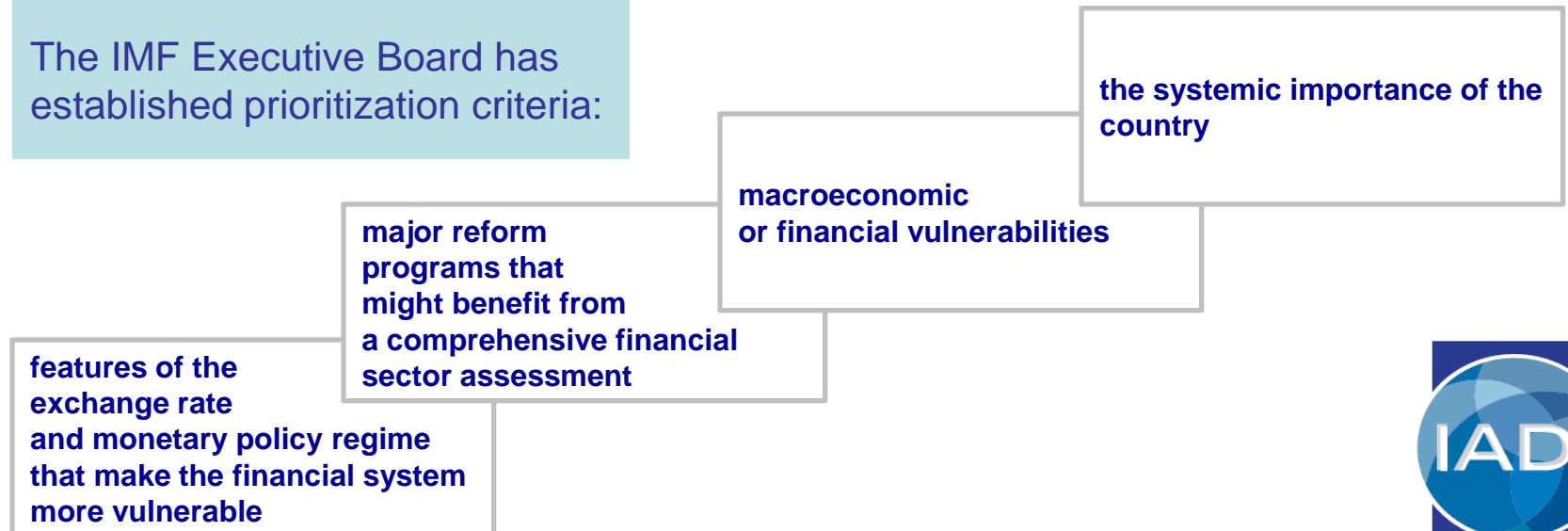


FSAP prioritization criteria

Since the FSAP was launched in 1999, after the Asian crisis, **more than 130 countries have volunteered to participate in the program** (many more than once), and approximately another 35 are currently under way.

Following the recent crisis, demand has risen, and the G-20 countries have made a commitment to undergo an assessment under the program every five years. The IMF collects requests for voluntary FSAP assessments

The IMF Executive Board has established prioritization criteria:



Report on Observance of Standards and Codes

Assessments of compliance with international financial sector standards (summarized in the **Report on Observance of Standards and Codes - ROSC**) are voluntary for a given country, even in countries for which an FSAP stability assessment is a mandatory part of surveillance.

They are an optional but potentially very useful component of the FSAP.

The standards most frequently assessed in the context of FSAPs are those on banking, capital market, and insurance supervision (Basel Committee standards, IOSCO and IAIS, respectively). **Since recently it may also encompass observance of Core Principles for Effective Deposit Insurance Systems.**

IMF/World Bank typically ask the host country to suggest 3-4 areas or standards to be included in the FSAP.

It is up to the deposit insurance agency to convey to their respective Central Bank and/or the Ministry of Finance their wish to have deposit insurance included in the FSAP scope.



Initial FSAP vs. FSAP update

The IMF distinguishes between: an "initial FSAP" and an "FSAP update".

In terms of content

There is no difference between the two: the financial stability assessment and financial development assessment components are identical.

In practice

Initial FSAPs tend to have broader coverage and include at least some of the key financial sector ROSCs, while FSAP updates follow up on the findings of the previous assessment.

Initial FSAPs typically involve two missions. Standards assessments are usually undertaken during the first mission, followed by an assessment of the overall stability of the financial system during the second mission.

FSAP updates are usually undertaken in one mission.



FSAP updates

A “full” FSAP update

Reassessment of a country’s financial sector, typically undertaken around 6-7 years after the initial assessment.

FSAP updates

More focused and concentrate on issues identified in the initial assessment.

In addition to “full” updates, countries have the possibility, since 2009, to opt for more flexible updates. Such updates may assess either financial stability (IMF) or financial development (World Bank), together with more targeted, risk-based assessments of the international standards that apply to the regulation and supervision of banks, securities markets, and insurance.



FSAP upgrades since September 2009

The IMF and World Bank have been revamping the program since September 2009

Four important changes in the FSAP:

1. Several initiatives are under way to improve the quality of assessments and incorporate the lessons from the recent crisis (more attention to crisis preparedness and crisis management frameworks, including arrangements for institutional cooperation within and across national borders);
2. The program has become more flexible. In between full updates, more frequent, more focused, “modular” assessments of financial stability or financial development can take place;
3. Financial sector issues have been better integrated into the Article IV process, allowing more continuous monitoring of developments and quicker responses;
4. FSAP now has a clearer delineation of institutional responsibilities between the IMF and World Bank for stability and development issues.



Advisory nature of FSAP recommendations

Like all policy recommendations made in the context of IMF surveillance, the FSAP recommendations are of an advisory nature.

However, subsequent Article IV surveillance teams, as well as future FSAPs, are required to assess the extent to which FSAP recommendations are being implemented and report to the IMF Executive Board. Findings of these assessments may be taken into consideration by the IMF/World Bank Boards when deciding about financial support or technical assistance.

Other international groupings or regional bodies may introduce monitoring processes that follow up on the implementation of FSAP recommendations or on actions taken by the authorities to address shortcomings identified in the assessment of compliance with international standards during an FSAP (eg. the FSB's peer review and Non-Cooperating Jurisdictions processes).



Financial Sector Assessment Program

IADI members tentatively scheduled for the FSAP reviews during the next IMF/WB fiscal year (July 2012 – June 2013)

- ✓ Azerbaijan
- ✓ Nigeria
- ✓ Uruguay
- ✓ Canada
- ✓ South Korea
- ✓ Singapore
- ✓ Poland
- ✓ Argentina
- ✓ Vietnam
- ✓ Trinidad and Tobago
- ✓ Guatemala

Due to resource constraints and host country's scheduling preferences, the actual timings of these FSAPs may change.

Core Principles for Effective Deposit Insurance Systems

Early 2011

The Core Principles for Effective Deposit Insurance Systems were officially recognized by the IMF and World Bank for use in FSAPs.

April 2012

Malaysia underwent an FSAP which included an assessment of its deposit insurance system against the Core Principles.

Some FSAPs have even resulted in recommendations to introduce deposit insurance systems (eg. Mauritius).

It is clearly evident that deposit insurance systems are regarded as an important element of financial safety nets. Therefore, they should be involved in the FSAP.



FSAP – Advantages for IADI Members

- The incorporation of Core Principles into FSAP creates an exceptional opportunity for deposit insurers to be part of FSAP like central banks and financial supervisors;
- It also allows indentifying the scope of compliance with CPs and areas for improvement;
- It contributes to enhancing the robustness of deposit insurance schemes;
- It strengthens domestic financial stability safety net.

Many IADI members have found conducting self-assessments against the Core Principles and participating in the IADI compliance assessment workshops helpful in preparing for FSAPs.

To help IADI monitor the core principles compliance assessment, please advise the IADI Secretariat when deposit insurance is included in your jurisdiction's FSAP.



Thank you...