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ISSUES OF BANK SUPERVISION IN DEVELOPED COUNTRIES

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There have been three great inventions since the beginning of time: fire, the wheel, and the Central banking

Will Rogers.

It is well known that the adequacy and effectiveness of supervision over banks' activities is a key factor in ensuring the stability of the banking system and strengthening confidence in banks. Only strong banking supervision enables the stable operation of the banking and financial system the lifeblood of the economy prevents economic crises, attracts private capital, and further boosts foreign investors' confidence in the banking and financial system.

In all countries, the primary object of banking supervision is credit institutions, namely commercial banks. The experience of the world's developed countries shows that without an effective two-tier banking system-comprising central banks and a network of commercial banks it is impossible to develop and stabilize a national economy.

First and foremost is the Central Bank, which regulates the country's monetary circulation and the activities of all credit institutions. The second tier is occupied by commercial banks and other credit institutions.

After the 2008 global financial crisis, risk-based supervision emerged as the strategic model for overseeing banking activities worldwide. Through this method, regulators can determine inspection priorities based on risk levels. Supervision should be aimed at detecting and preventing risky transactions. A risk-based approach allows for the efficient use of regulatory resources and the improvement of the quality of supervisory examinations. International practice shows a trend toward strengthening this approach institutionally and legally. A risk-based approach serves as an important analytical tool in shaping macroprudential policy. It is not without reason that improving this system is considered one of the priority tasks for ensuring the sustainable development of the country's banking sector.

In many foreign countries, risk-based supervision has been introduced and has been in use. For example, in the territory of European states, the European Central Bank/Single Supervisory Mechanism (ECB-SSM) also applies this system.

The euro area's methodology document: the Supervisory Review and Evaluation Process (SREP) and the annual "Supervisory methodology" are overseen based on the SREP methodology.

SREP is a centralized, risk-oriented assessment process for SSM banks' risks (risk assessment, internal governance, capital/liquidity, and others), which provides the basis for the adoption of capital/liquidity supervisory measures and requirements.

The European Banking Authority (EBA) has a number of guidelines at the pan-European level, including guidance on common procedures and methodologies for SREP and guidance on risk-based supervision (focused on AML). The EBA also publishes practical SREP guidelines (for example, SREP GL, SREP 2020 pragmatic guidance, and others).

The EBA defines the common methods/procedures to be applied by national regulators and the ECB for risk-based supervision as agreed upon in the European Union.

In another European country, Germany (BaFin / Deutsche Bundesbank), the following document, MaRisk – Mindestanforderungen an das Risikomanagement (Minimum Requirements for Risk Management), has been developed.

In Germany, MaRisk is the detailed minimum requirements for risk management in banks; it is applied jointly by BaFin and the Bundesbank and includes a risk-oriented approach to internal control, audit, reporting, and other areas.

Next, looking at the UK (Bank of England - Prudential Regulation Authority, PRA).

In the United Kingdom, "The PRA's approach to banking supervision" (and the Supervisory Statements series, SS). For example, the Prudential Regulation Authority has a Banking Strategy/Approach document and separate Supervisory Statements that describe risk-oriented expectations.

This document uses PRA risk-oriented inspections and supervisory programs, expanding supervisory intensity based on risk, specialized SREP, similar processes, and the supervisory cycle.

If we look at exactly what the risk-based approach document contains, it is briefly outlined below.

1. The bank's approach to assessing profile risks (credit, market, operational, liquidity, IT/cyber, climate, and others).

2. Risk level criteria (low/medium/high) and triggers for enhanced monitoring.

3. SREP/review procedures (including stress tests, internal governance review, and capital/liquidity).

4. Rules for allocating monitoring resources - focusing on higher-risk objects.

5. Monitoring, reporting, and sanctions/corrective measures are considered.

As is evident from the above, there is no single document dedicated solely to "risk-oriented bank supervision" that is mandatory for all countries of the European Union or the CIS.

However, in the European Union there is a harmonized framework through the EBA (SREP guidelines), the Capital Requirements Directive IV (CRD IV)/Capital Requirements Regulation (CRR), and other standards. For example, in Germany, the SREP is based on Articles 97 and 104 of the CRD.

• In the CIS countries, approaches vary: from official legislation (Kazakhstan) to plans for implementation (Uzbekistan) and conformity assessment (Russia, Belarus).

• Key elements are present everywhere: risk assessment (business model, governance, internal controls), varying control intensity according to risk and bank importance, early intervention, and quantitative and qualitative assessment methods.

• The combination of a regulatory document (law/resolution text), a methodological document (guide, manual, SREP methodology), and practical application (stress tests, dividing by bank category, making tier lists of banks) is considered good practice - for example, In Germany, different examination cycles are prescribed for banks in categories 1–4.

Risk-based banking supervision by country

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The data on bank supervision in foreign countries are detailed in the table below, and they mainly show that today they are using risk-based bank supervision.

Country	Regulator	Approach description
Germany	Bundesbank/ BaFin	A regulatory document that sets minimum requirements for managing banks' risks; it is used as the basis for risk-oriented supervision.
Spain	Banco de España / Bank of Spain	A bank risk assessment system based on the SREP. It includes analysis of the business

Country	Regulator	Approach description
		model, capital, liquidity, and risk management.
Austria	FMA Austria	Regulates the supervisory assessment of the business model, capital, liquidity, and corporate governance.
Georgia	National Bank of Georgia (NBG)	The fully implemented scope of risk-oriented supervision. It assesses risks, systemic importance, and the quality of governance. As a result, a capital buffer (Pillar 2) is created.
Kazakhstan	Agency for Regulation and Development of the Financial Market of Kazakhstan	Strengthens the risk-based approach to the supervision of banks and financial groups.
Uzbekistan	Central Bank of the Republic of Uzbekistan	It provides for the introduction of risk-sensitive controls, the assessment of the bank's profile, and the integration of SRB into inspection practices.
Russia	Bank of Russia	Supervision is based on assessing banks' risks and systemic threats and is aimed at detecting potential problems early.
Azerbaijan	Central Bank of Azerbaijan	A Risk Assessment System (ARAS) has been implemented to strengthen oversight of systemically important institutions.

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