Assessing macroprudential oversight in Europe:
A public collaborative process

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The views expressed in this presentation do not necessarily represent those of the ECB or the Eurosystem.
**Motivation**

- Ongoing crisis highlighted the importance of a system-wide approach to safeguarding financial stability
- Lack of a unanimous framework for macroprudential oversight
  - Increasing role of CBs in safeguarding financial stability
  - Differing roles of FSOC, FPC and ESRB/ECB
  - Various roles of financial supervisory authorities
- The European System of Financial Supervisors
  - ECB/ESRB, SSM/RM, EBA/EIOPA/ESMA, EC/OFIN, NBMF
  - National CBs and FSAs (banking, insurance and securities)
  - National legal and political aspects
- Discussion on individual aspects/roles: legal, ECB/ESRB, etc.
Previous discussion

- Issing (2009): *CBs not to decide who gets credit. If markets are not functioning, then politicians (accountable to voters)*
- Goodhart (2011): *concerns with ESRB being dominated by CBs, and run by the ECB*
- De Grauwe (2013): *stresses the role of the ECB as a lender of last resort*
- Schoenmaker (2013): *macropru under E(S)CB, input from NCBs but separate from micropru, ESRB for wider EU*
- Legal issues: UK vs. ESMA & Germany vs. banking union
- EC’s ESFS review: *effectiveness/efficiency & existing structure*
A comprehensive view to macroprudential oversight in Europe.

...through the lens of process management
  - aligning processes of organizations with their wants and needs

Define the problem as a *public collaborative process*

Aim to effectively and efficiently safeguard financial stability
  - to date, process analysis, modeling and improvement is elusive

We approach this through the assessment of process readiness
Overview

- Tap into involved experts to assess process readiness
  - Performers, design, metrics, infrastructure and owner

↓

1. Is there a macroprudential oversight process?
   - Introduce 5 process enablers

2. Where are potential bottlenecks?
   - Assess which enablers require improvement
1. Process management (Segatto et al. 2013)

1. Project planning
2. Process analysis
3. Process design and modeling
4. Process implementation
5. Process monitoring and control
6. Process refinement
1. Process management

- Public collaborative process (PCP)
  - involves multiple organizations with one common objective
  - actors take a collaborative approach to reaching the goal
  - dispersed organizations cooperating under unstructured forms

- Examples of PCPs
  - Healthcare, Education, Public Safety, Financial Stability
1. Process management

- Business processes vs. PCPs
- Differences in choice of customers & feedback loop
- ...but exactly the same ultimate goal
  - To fulfill customer needs
1. Process management

Process enablers (Hammer 2007): How mature is a process?

1. Process performers
2. Process design
3. Process metrics
4. Process infrastructure
5. Process owners
2. Macropru as a PCP

- Macroprudential oversight in Europe as a PCP
  - Objective: safeguarding financial stability
  - Actors: European and national organizations
  - Cooperation: dispersed organizations & various forms

- Systemic risk (ECB 2009): "risk that financial instability becomes so widespread that it impairs the functioning of a financial system to the point where economic growth and welfare suffer materially"

- From potential systemic risk to preventing and mitigating it
2. Macropru as a PCP

- Macroprudential oversight process (ECB 2010, adapted)

- Risk identification
- Risk assessment
- Vulnerability
- Material risk
- Policy assessment
- Yes
- No
- Yes
- No

- Impacts of internal and external risk communication
- Risk communication
- Risk warnings
- Policy recommendation
- Policy implementation

- Potential sources of systemic risk
- Market imperfections behind systemic risk

- Impacts of policy and follow-up recommendations
2. Macropru as a PCP

European System of Financial Supervisors (Hartmann 2013)
2. Macropru as a PCP

- ESFS’s institutional models for macropru (Schoenmaker 2014)

<table>
<thead>
<tr>
<th>Model</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency</td>
<td>Min of Finance</td>
<td>CB</td>
<td>FSA</td>
<td>Committee</td>
</tr>
<tr>
<td>Euro area</td>
<td>0 (0%)</td>
<td>11 (58%)</td>
<td>4 (21%)</td>
<td>4 (21%)</td>
</tr>
<tr>
<td>Non-euro area</td>
<td>1 (10%)</td>
<td>6 (60%)</td>
<td>1 (10%)</td>
<td>2 (20%)</td>
</tr>
<tr>
<td>Total</td>
<td>1 (3%)</td>
<td>17 (59%)</td>
<td>5 (17%)</td>
<td>6 (21%)</td>
</tr>
</tbody>
</table>
3. Assessing macropru

- Rely on experts to assess the macropru process
  - Involved actors in the ESFS: operative & governing experts
  - Structured interviews with questions around 5 process enablers
  - Full anonymity & no recordings, but extensive notes
- 4 (semi-structured) + 11 (structured) interviews (1–1.5 h)
- 4 interviews indicated infeasibility of detailed process modeling
- A call for a more elementary perspective – process readiness
3. Assessing macropru

- Map interview questions to process enablers in macropru
  - Performers, design, metrics, infrastructure and owner

1. Performers: Skillset & mindset of involved actors
   - Knowledge: Familiarity with macropru
   - Behavior: Interest in improving & developing macropru

2. Design: Step-by-step specification
   - Purpose: Clear end-to-end understanding of macropru
   - Context: Awareness of inputs/outputs among institutions
   - Documentation: Clear and accessible specification of tasks
3. Assessing macropru

3. Metrics: The use of measurement in macropru
   - Definition/uses: Measures of efficient & effective macropru
   - Analytics: Measures of systemic risks

4. Infrastructure: Tools & people for macropru
   - IT: Sufficiency of IT & data infrastructure
   - HR: Sufficiency of hiring, training & development

5. Owners: Responsibility and mandate to oversee macropru
   - Identity: Overall responsibility for well-functioning macropru
   - Activity: Responsible entity guiding development activities
   - Authority: Ultimate mandate to implement changes
3. Assessing macropru

Performers
- Knowledge
- Behavior

Design
- Purpose
- Context
- Documentation

Metrics
- Definitions
- Analytics

Infrastructure
- Information Technology
- Human Resources

Ownership
- Identity
- Activity
- Authority

Unclear: Unclear
Clear: Clear
Sufficient: Sufficient
High Readiness
Low Readiness
Lack of Consensus

3. Assessing macropru

We are not reporting facts, we are reporting our interpretation of other people’s interpretations

- Walsham (1995)
3. Assessing macropru

Performers
- Knowledge
- Behavior

Design
- Purpose
- Context
- Documentation

Metrics
- Definitions
- Analytics

Infrastructure
- Information Technology
- Human Resources

Ownership
- Identity
- Activity
- Authority

Knowledge: Unclear → Clear
Behavior: Unclear → Clear
Purpose: Unclear → Clear
Context: Unclear → Clear
Documentation: Unclear → Clear
Definitions: Unclear → Clear
Analytics: Insufficient → Sufficient
Identity: Unclear → Clear
Activity: Unclear → Clear
Authority: Unclear → Clear

Lack of Consensus
Low Readiness
Future work

- Interviews to cover ESFS continue
  - Better coverage at the national level
- Draw upon the EC Review of the ESFS
  - Public consultation on the ESFS
  - Questionnaire with 94 contributions
- Analysis of interview data
  - Operative vs. governing experts
  - National vs. European level
  - Task vs. institution level
  - Analysis vs. decisionmaking
  - Current vs. planned
Conclusions

- Moving towards a pan-European framework for macropru
  - functional solution, minor stumbling blocks or an elusive goal?
- Individual obstacles derive from an inter-organizational level
  - but emergence occurs at a full process level
- Why assessing process readiness?
  - Ultimately, any PCP is built for effective & efficient operations
  - A full process view to assess readiness in the case of macropru
  - Inevitably, process management can help in this...
  - ...now (rather than later) is the time to do this for macropru
Thanks for your attention!
Hartmann, P.: 2013, Fitting macroprudential into the picture: Models, institutions and instruments. Presentation at the Banco de Espana/World Bank policy conference on Central Bank (R)evolutions, Madrid, Spain on June 17th, 2013.
### Your role in your institution?

#### Process enablers

<table>
<thead>
<tr>
<th>1. Process performers</th>
<th>Knowledge/Skills</th>
<th>How familiar are you with macroprudential oversight as a whole in Europe?</th>
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<tbody>
<tr>
<td></td>
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<td>What is your role in macroprudential oversight?</td>
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<tr>
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<td>Do you have contact points in all involved actors in macroprudential oversight?</td>
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<tr>
<td>Behavior</td>
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<td>Do you have a clear idea of how macroprudential oversight should be improved?</td>
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<tr>
<td></td>
<td></td>
<td>How much influence do you have on macroprudential oversight?</td>
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| 2. Process design      | Purpose          | Is macroprudential oversight well-defined from start to end in terms of who is doing what? |
|                        |                  | How do you see your role in macroprudential oversight versus all other actors? |
|                        | Context          | Are the correct actors involved and are roles divided correctly?           |
|                        |                  | With whom do you exchange information and what kind of information?        |
|                        |                  | Are there overall or particular problems with information flows?           |
| Documentation          |                  | Is your role in macroprudential oversight formally defined?               |
|                        |                  | Is there a clear and accessible formal documentation of tasks?            |
|                        |                  | How would you improve the documentation?                                 |

| 3. Process metrics     | Definition/Uses  | Is there a way to measure well-functioning macroprudential oversight (other than lack of crisis)? |
|                        |                  | How do we know that cost and quality of macroprudential oversight is aligned (or optimal)? |
|                        | Analytics        | If not, what should measures look like?                                  |
|                        |                  | What is the role of analytical models and tools in macroprudential oversight? |
|                        |                  | Can systemic risk be measured?                                          |

| 4. Process infrastructure | Information systems | Do you have the tools and infrastructure needed to perform your duties in macroprudential oversight? |
|                          |                    | Do you have sufficient IT infrastructure for your work?                  |
|                          |                    | Do you have sufficient data infrastructure (data warehousing/sharing/quality)? |
|                          | HR                 | What improvements would be needed to support your tasks?                |
|                          |                    | How flexible is your human resources infrastructure for supporting macroprudential oversight? |
|                          |                    | How would you improve training, development and hiring to support macropru? |

| 5. Process owners       | Identity/Activities/Authority | Who is responsible for well-functioning macroprudential oversight? |
|                        |                                | Who is responsible for developing macroprudential oversight? |
|                        |                                | Who has the ultimate authority to oversee all tasks and performers involved in macroprudential oversight? |
|                        |                                | Should anyone else be involved in developing and overseeing macroprudential oversight? |

Forget all restrictions: How to improve macroprudential oversight in Europe? What would it take for this to happen?