

Santoni, Alessandro; Rapalino, Valentina; Nesti, Roberta

Research Report

A comparative review of worldwide on-site banking supervision trends through the lens of IMF/World Bank FSAP

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EUROPEAN CENTRAL BANK

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Alessandro Santoni, Valentina Rapalino,
Roberta Nesti

A comparative review of worldwide
on-site banking supervision trends
through the lens of IMF/World Bank
FSAP

No 375

Contents

1	Executive summary and introduction	3
1.1	FSAP	6
1.2	Overview of Basel Core Principles (BCPs) and on-site supervision principles	7
1.3	Sample	9
2	General overview of on-site inspection structures within several supervisory authorities	11
3	Major areas of improvement in relation to on-site examinations highlighted by FSAP analysis	25
3.1	Balance between off-site and on-site supervision	25
3.2	Communication of supervisory findings to board of banks	27
3.3	Scope of on-site examinations	29
3.4	Staffing of off-site and on-site functions	30
3.5	Use of externals to conduct supervisory activities	32
3.6	Sanctions and enforcement measures	34
3.7	Cross-border on-site examinations and home-host relationship	37
3.8	On-site examinations on AML topics	43
4	Conclusion	47
5	Annexes	49
5.1	Annex 1: Sampled countries used for this assessment	49
5.2	Annex 2: Overview of different versions of Basel Core Principles (BCPs) for effective bank supervision	50

Abstract

The IMF working paper, “Good Supervision: lessons from the field,” examines the effectiveness of On-site Inspections (OSIs) as a supervisory tool in advanced economies (AEs), drawing insights from 60 Basel Core Principles (BCPs) assessments conducted between 2012 and June 2023. Despite their critical role in ensuring financial stability, OSIs are identified as the second-largest weakness among supervisory techniques in AEs. The study highlights challenges such as limited supervisory resources, infrequent inspections of smaller banks, and an over-reliance on off-site monitoring, which cannot fully substitute the insights gained from in-person supervision. Key deficiencies include gaps in OSI scope, frequency, staffing, and enforcement mechanisms, as well as communication and structural issues. The paper underscores the need for supervisory authorities to balance on-site and off-site methods, enhance staffing and inspection practices, and strengthen enforcement capabilities. These improvements are deemed essential to align supervisory practices with BCP standards and foster a more resilient financial system.

Keywords: On-site Inspections (OSIs), Basel Core Principle (BCP), International Monetary Fund (IMF), supervisory techniques

JEL codes: G2, E58

1 Executive summary and introduction

The IMF Working Paper “Good Supervision: Lessons from the Field” (2023) found that on-site inspections (OSIs) rank as the second-largest weakness among the supervisory techniques used in advanced economies (AEs) (see Figure 1). The authors reviewed 60 Basel Core Principles (BCPs) assessments completed between 2012 and June 2023, broadly concluding that effective and proactive supervision is crucial for maintaining stable and sound financial systems. They recommend that supervisory authorities closely evaluate their supervisory processes and techniques against best practices in relation to the BCPs. Authorities should focus on ensuring independence and accountability, clearly defining their mandate, and providing adequate staffing in terms of both resources and skills, as well as legal protection for their staff.

Among other vulnerabilities, the authors cite the risk of supervisors devoting too much attention on large and complex banks due to their systemic importance while potentially neglecting smaller banks and the risks they may pose. The authors argue that this is also connected to the fact that “limited supervisory resources often lead to less frequent and less comprehensive inspections of small banks”. As a result, off-site monitoring becomes the primary supervision method, with more data-driven and standardised processes employed. The authors also find that external independent parties are sometimes engaged in reviewing risk management systems and controls but that, in any case, it is crucial for supervisors to conduct targeted or limited-scope inspections of small banks.

The authors, in their review of FSAP findings spanning a decade (2012-2023), identified that supervisors face resource constraints, thus limiting the time, expertise, and number of resources that can be devoted to supervisory tasks. The authors also note that “despite investments in areas such as Suptech and supervisory monitoring, an adequate balance of offsite and onsite supervision remains necessary”, arguing that regular bank visits cannot be fully replaced by technology or off-site monitoring, as supervision requires verification, and that direct contact is still essential to confirm the accuracy and reliability of policies, procedures and commitments made to supervisors.

Indeed, as mentioned in the BCBC Working paper: “Lessons on supervisory effectiveness: literature review”¹ (2025) and based on the study carried out by Delis, Manthos and Staikouras, Panagiotis K.²(2011), the on-site inspections promote more conservative bank risk management.

Evidence suggests that OSIs are vital for initiating supervisory action, complementing off-site supervision, verifying off-site analysis, and monitoring risk trends among large and small banks alike. So, with that in mind, how can it be that OSIs are the second-largest weakness among supervisory techniques in AEs? Are

¹ “Lessons on supervisory effectiveness: literature review” (2025), <https://www.bis.org/bcbs/publ/wp45.htm>

² “Supervisory Effectiveness and Bank Risk” (2011), *Review of Finance*, 15, issue 3, p. 511-543

there any common challenges or weaknesses facing supervisory authorities in relation to these inspections?

This paper seeks to address these questions by analysing ten years of Financial Sector Assessment Program (FSAP) assessments across 32 countries, by comparing the supervisory processes of national supervisory authorities against the Basel Core Principles (BCPs) for effective bank supervision. Our analysis will focus on on-site examination processes and techniques, with the aim of identifying recurring gaps relative to the BCPs or common significant weaknesses among major authorities, also as a consequence of the recent failure of three institutions in the last years.

Our analysis broadly reveals that all supervisory authorities except one employ a mix of off-site and on-site supervisory techniques. However, 50% of these authorities (16 in total) do not have a dedicated and independent on-site inspection team or department and only 14 countries (44%) have an organisational structure with independent teams specifically devoted to on-site examinations. Looking at the main areas for improvement in on-site examinations, as highlighted by BCP assessors:

Most supervisory authorities (21 out of 32, or 65%) maintain a balanced mix of on-site and off-site supervision. However, for nine authorities (28%), off-site supervision is dominant over the on-site. This is due to various factors, including inadequate frequency and risk coverage of on-site inspections and limited time spent on-site.

A majority (62.5%, or 20 authorities) show weaknesses when communicating with banks, often due to insufficient contact with board members or delays in releasing on-site examination reports.

Less than half (14 authorities, or 44% of the total) conduct full-scope on-site examinations, while 34% (11 authorities) do not. Amongst the latter group, the targeted scope was deemed adequate in four cases, while in the remaining seven it was found to be insufficiently deep or intrusive, whether due to the short duration or low frequency of examinations, or where the approach followed proved to be compliance-based rather than risk-based.

Notably, 44% of supervisory authorities, or 14 in total, are experiencing staffing shortages that may impact the frequency and intensity of inspections, either due to limited resources or lack of specialist resources in certain risk areas.

Over half of the authorities (53%, or 17 authorities) rely on external support for supervisory activities, while only 9% (3 authorities) do not use external experts due to adequate internal staffing. The percentage of authorities not using external support rises to 47% when including those that do not use it despite their policy allowing for, due to budget constraints, lack of opportunities, or intentional choice.

In terms of sanctions and enforcement, at least four instances reveal limited enforceability of measures post-OSI, with authorities lacking the power to sanction senior managers or board members. A further five cases show suboptimal enforcement due to legal ambiguities coupled with a lack of effective powers.

Half of the authorities (16) conduct regular on-site examinations of foreign branches or subsidiaries of domestic banks, while the remaining half is split amongst those (9, or 28%) that have permission but either do not do so in practice or do so only to a very limited extent, and those (7, or 22%) that do not conduct cross-border examinations at all, often because the framework for supervising consolidated entities is either absent or under development.

Meanwhile, 37.5% of authorities (12) share information and collaborate with other supervisors but have not yet conducted joint cross-border examinations, mainly due to a lack of necessity or opportunity. Half of the authorities sampled (16, or 50%) actively coordinate cross-border supervisory activities, while two have not established any kind of collaborative supervision because they have no Memorandum of Understandings (MoUs) in place with any other supervisors.

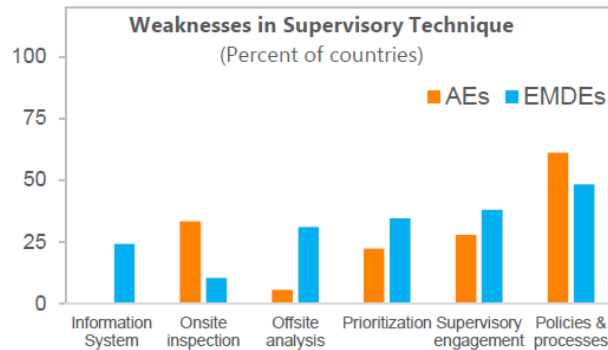
Except for two countries (one of which did not provide a specific response, while the other confirmed that subsidiaries are subject to a different set of prudential and inspection requirements compared with domestic banks), no issues were identified regarding the treatment of foreign operations in host countries. In all other cases, the host supervisors confirmed that foreign operations are supervised on an equal footing with domestic banking operations, thereby ensuring no preferential treatment.

While 56% of authorities (18) permit home supervisors to access local offices for on-site examinations, a significant 41% (13) need to improve access rights to local offices within their countries, either because there is no evidence of home supervisors conducting on-site examinations of international banking groups within their borders or because certain limitations exist, such as requiring the host supervisor's participation or explicit approval before allowing access.

Improvements in conducting on-site examinations on AML topics are needed for 53% of authorities (17). Key areas for improvement include the need to ensure adequate staffing for AML on-site examinations, extending the duration of missions, and refining the definition of the scope for on-site activities. Additionally, certain authorities fail to ensure adequate coverage of banks through AML on-site examinations, particularly when it comes to smaller banks, or those perceived to carry less risk. In other instances, there are no explicit obligations for banks to report suspicious activities and fraud incidents.

The remainder of this paper is organised as follows: Section 2 – General overview of on-site inspection structures within several supervisory authorities provides an overview of how the various authorities to have been sampled have organised their activities, tasks and responsibilities between off-site and on-site functions. Section 3 – Main areas of improvement in relation to on-site examinations highlighted by FSAP analysis" delves deeper into each specific finding mentioned above, in accordance with the BCPs. Lastly, Section 4 – Conclusion wraps up the paper.

Figure 1
Weaknesses of supervisory techniques



Source: "Good Supervision: Lessons from the Field", *IMF Working Paper*, 2023.
Note: AEs = advanced economies; EMDEs = emerging markets and developing economies.

1.1 FSAP

Financial Sector Assessment Program (FSAP)³ assessments are conducted jointly by the International Monetary Fund (IMF) and the World Bank (WB). In emerging markets and developing economies (EMDEs), the IMF focuses on stability aspects and the World Bank addresses developmental needs, while in advanced economies (AEs), the IMF alone undertakes these assessments. They offer a comprehensive analysis of the resilience of a country's financial sector. Launched in 1999, the FSAP aims to help countries minimise the occurrence and severity of financial crises by assessing the stability and soundness of their financial sectors and their potential to contribute to growth and development.

A critical output of the FSAP is the Detailed Assessment Report (DAR) on observance of the BCPs (see next section), which contains a detailed assessment section and tables summarising compliance with the BCPs, categorised into five levels: compliant (C), largely compliant (LC), materially non-compliant (MNC), non-compliant (NC), and not applicable (NA), along with a recommended action plan to enhance compliance. A country is deemed "compliant" with a BCP when all essential criteria relevant to that country are met without significant deficiencies, while it can be considered "largely compliant" with a BCP when only minor shortcomings exist that do not compromise the authority's ability and clear intent to fully comply with the BCP within a set timeframe. Conversely, a country is regarded as "materially non-compliant" with a BCP when there are serious deficiencies, despite having formal rules, regulations and procedures in place, and where evidence shows that supervision has been ineffective, implementation is weak, or the shortcomings raise

³ Financial Sector Assessment Program (FSAP): <https://www.imf.org/en/About/Factsheets/Sheets/2023/financial-sector-assessment-program-FSAP>.

doubts about the authority's ability to comply. Lastly, a country is considered "non-compliant" with a BCP when there is no substantial implementation, several essential criteria are unmet, or supervision is evidently ineffective. Meanwhile, a BCP will be considered "not applicable" when, in the assessor's view, it does not apply given the structural, legal and institutional features of a country.

1.2 Overview of Basel Core Principles (BCPs) and on-site supervision principles

The Basel Core Principles for effective bank supervision (also referred to as "Basel Core Principles" (BCPs)) consist of a list of best practices for the supervision of banks and banking systems. They serve as a global benchmark for sound supervisory practices, providing a comprehensive framework that helps supervisors assess the quality of their banking supervisory systems. Originally published in 1997⁴, the BCPs were subsequently revised in 2006⁵, 2012⁶ and April 2024⁷.

In the first version dating back to 1997, there were a total of 25 BCPs, which were high-level described. On-site supervision was covered under Principle 16: "An effective banking supervisory system should consist of some form of both on-site and off-site supervision". This principle recognises that effective banking supervision requires both off-site and on-site oversight but does not prescribe a specific balance between the two or specify whether staffing should be internal or external. In certain countries, on-site work is conducted by examiners, while in others, qualified external auditors are in charge. Additionally, some countries employ a mixed approach, combining on-site examinations with collaboration between supervisors and external auditors. Regardless of how the staff is composed, on-site work should be designed to independently verify that individual banks have adequate corporate governance in place and that the information they provide is reliable and covers aspects such as the adequacy of the bank's risk management systems and internal control procedures or the quality of the loan book and the adequacy of loan-loss provisions and reserves. Moreover, the on-site examination programme should be governed by dedicated examination policies and procedures that also define the frequency and scope of examinations.

In the 2006 version, the changes made did not contradict the previous version; instead, they targeted areas where adjustments to the existing framework were needed to ensure they remain aligned with the latest regulatory changes and practices. In this 2006 version, on-site work is primarily addressed in Principle 20 "Supervisory techniques", although it is also mentioned in Principle 2 "Independence,

⁴ Core Principles for Effective Banking Supervision (September 1997), <https://www.bis.org/publ/bcbs30a.pdf> and related Core Principle Methodology (October 1999), <https://www.bis.org/publ/bcbs61.pdf>.

⁵ Core Principles for Effective Banking Supervision (October 2006), <https://www.bis.org/publ/bcbs129.pdf> and related Core Principle Methodology (October 2006), <https://www.bis.org/publ/bcbs130.pdf>.

⁶ Core Principles for Effective Banking Supervision (September 2012), <https://www.bis.org/publ/bcbs230.pdf>.

⁷ Core Principles for Effective Banking Supervision (April 2024), <https://www.bis.org/bcbs/publ/d573.pdf>.

accountability and transparency”⁸, which requires a travel budget as an essential criterion to support appropriate on-site work, and in Principle 25 “Home-host relationships”⁹, which stipulates that home country supervisors must have on-site access to local offices and subsidiaries of a banking group to assess the group’s safety, soundness and compliance with “know-your-customer” (KYC) requirements. Principle 20 states that “An effective banking supervisory system should consist of on-site and off-site supervision and regular contacts with bank management” and provides further details of the essential criteria needed to meet the principle.

In the version of 2012, the BCPs establish that the supervisor, based on the country’s unique conditions, should use a strategic blend of on-site and off-site supervision to assess a bank’s condition, inherent risks, and necessary corrective actions. Policies and processes to evaluate the quality and integration of on-site and off-site functions and to rectify any weaknesses should also be in place, and on-site activities should be planned and executed through a coherent process, ensuring thoroughness, consistency, and clear roles, objectives and outputs. This version of the BCPs places more emphasis on on-site work. It specifies that on-site activities, whether performed by the supervisor’s staff or external experts, are crucial for independently verifying adequate corporate governance, including risk management and internal control systems, and should ensure the reliability of the information provided by banks, gather additional insights on the banks and their related entities, and oversee the bank’s effective follow-up on supervisory concerns.

By 2012, the Basel Committee had expanded the BCPs from 25 to 29, with the aim of addressing many of the significant risk management weaknesses and other vulnerabilities laid bare by the 2007 crisis. On-site examinations are now tackled under Principle 9 “Supervisory Techniques and Tools”, which states that “The supervisor uses an appropriate range of techniques and tools to implement the supervisory approach and deploys supervisory resources on a proportionate basis, taking into account the risk profile and systemic importance of banks”. As an addition to the previous versions, the 2012 principle underscores the critical importance of adopting a risk-based supervisory approach by utilising diverse information sources to regularly review and evaluate the safety and soundness of banks, while also proactively identifying, assessing and mitigating any emerging risks across individual banks and the wider banking system.

Additionally, the principle highlights the importance of effective communication with banks, by ensuring regular and sufficient contact with the bank’s board, non-executive board members, and senior and middle management, and by promptly communicating the findings from on- and off-site supervisory analyses to the bank through written reports, discussions or meetings with the bank’s management.

⁸ “Each such authority should possess operational independence, transparent processes, sound governance and adequate resources, and be accountable for the discharge of its duties.”

⁹ “Cross-border consolidated supervision requires cooperation and information exchange between home supervisors and the various other supervisors involved, primarily host banking supervisors. Banking supervisors must require the local operations of foreign banks to be conducted to the same standards as those required of domestic institutions.”

The latest version from 2024 introduced further refinements to existing principles while maintaining the structure established in 2012. The main addition in relation to on-site examinations and Principle 9 is the clarification that supervisors, while performing their duties, may engage independent third parties, including external experts, although they cannot delegate their prudential responsibilities to these third parties.

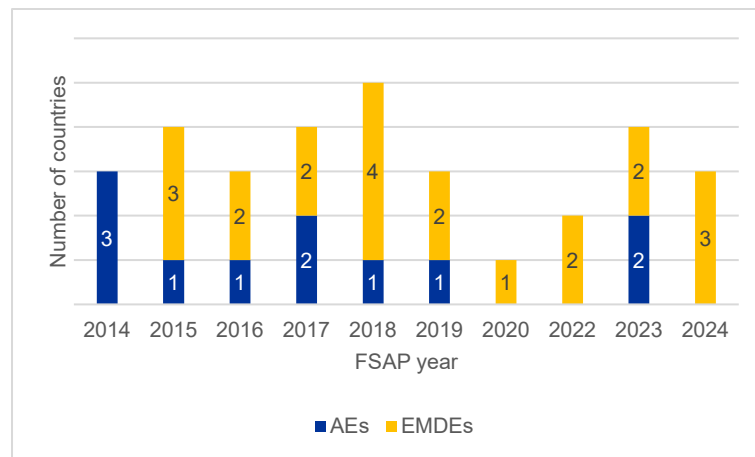
Annex 2 contains a list of all the BCPs related to on-site examinations reviewed in this paper, along with the various correspondences across different years.

1.3 Sample

In our analysis, we concentrated on a sample of countries for which a FSAP Detailed Assessment Report (DAR) on observance of the BCPs was available¹⁰, covering the years 2014 to 2024. All the FSAP assessments we analysed were therefore evaluating the degree of compliance against the 2012 version of the BCPs. Initially considering 34 assessments, we refined our sample to ensure both relevance and timeliness. As such, assessments from Austria (2014) and Germany (2016) were excluded, as these countries are now part of the Single Supervisory Mechanism (SSM) framework, making their previous assessments less relevant to the current regulatory context.

As a result, our refined sample comprised 32 assessments (see Annex 1), each representing a different country, thus providing a solid basis for examining the effectiveness of global banking supervision practices.

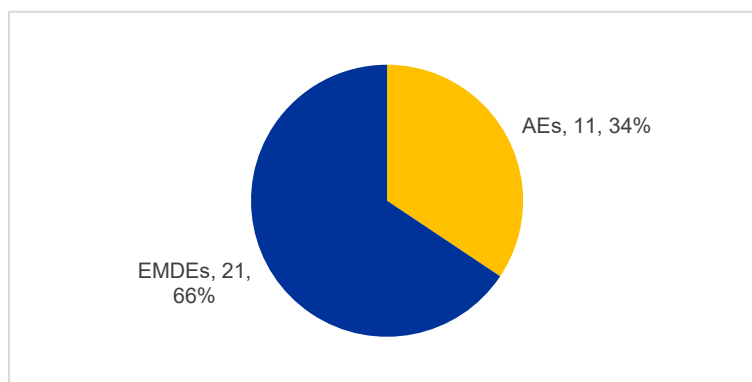
Figure 2
Countries sampled by FSAP year



¹⁰ FSSA Country Reports, <https://www.imf.org/en/Publications/fssa>.

Figure 3

Countries sampled by IMF World Economic Outlook classification



2 General overview of on-site inspection structures within several supervisory authorities

As previously noted, BCP 9 does not provide detailed prescriptions on how supervisory off-site and on-site practices should be organised, divided and structured. Instead, it requires a suitable combination of on-site and off-site activities for assessing a bank's condition and risk profile. The specific blend of these activities should be determined by the unique conditions and circumstances of the country and the bank concerned. Consequently, supervisory authorities have adopted various combinations of off-site and on-site activities and allocated responsibilities to different teams. These arrangements have been evaluated by BCP assessors through FSAP assessments on the observance of the BCPs.

This section provides a general overview of the role of on-site examinations within various supervisory authorities included in the sample, focusing on those for which adequate information was available, and how these examinations are structured and organised, as evaluated by the BCP assessors.

Based on our analysis of the findings of 32 FSAP papers, all the supervisory authorities bar one combine both off-site and on-site supervisory techniques (see Figure 4). The only authority that does not, has developed an array of supervisory tools and techniques to evaluate each bank's financial condition, risk profile and internal controls, but focusing primarily on off-site supervision. This authority does not conduct on-site examinations of domestic banks but does occasionally appoint external experts to draw up reports based on internally determined terms of reference or participate solely as an observer in on-site examinations conducted by home supervisors within their country.

Half of the supervisory authorities assessed (16, representing 50% of the sample) have no dedicated and independent on-site inspection team or department. Instead, on-site inspections are conducted by a single supervisory team that handles both on-site and off-site activities or by a devoted supervision team that is supported by supervisors or risk experts from different departments. In another case, the supervisory authority is assisted in its examination activities by external auditors, who maintain permanent staff on the bank's premises.

Only 14 countries (44%) report having an organisational structure that includes independent teams or departments specifically devoted to on-site examinations. In these instances, the supervisory authorities concerned have dedicated internal teams conducting on-site examinations, complementing the efforts of their colleagues responsible for off-site supervision tasks, and which may also be supported by other risk experts or external specialists if necessary. Furthermore, off-site and on-site teams are expected to coordinate and collaborate: off-site supervision supplies information used to assess the bank's performance and credit

situation, thus determining the frequency and scope of on-site supervision, while on-site analysis is used to verify regulatory compliance or further investigate findings from off-site supervision.

Figure 4
Number of countries performing on-site inspections

Almost all assessed countries perform on-site inspections

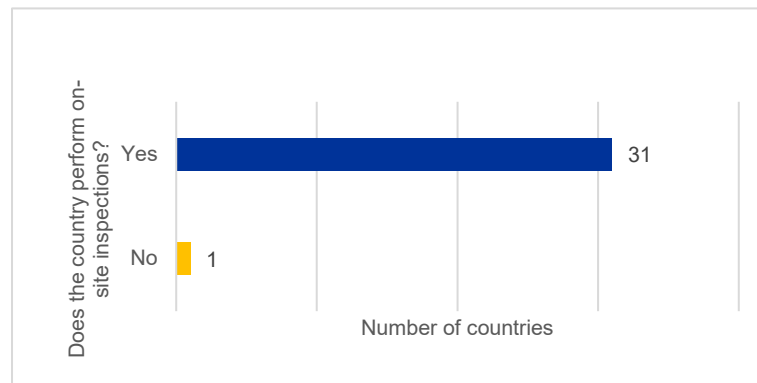
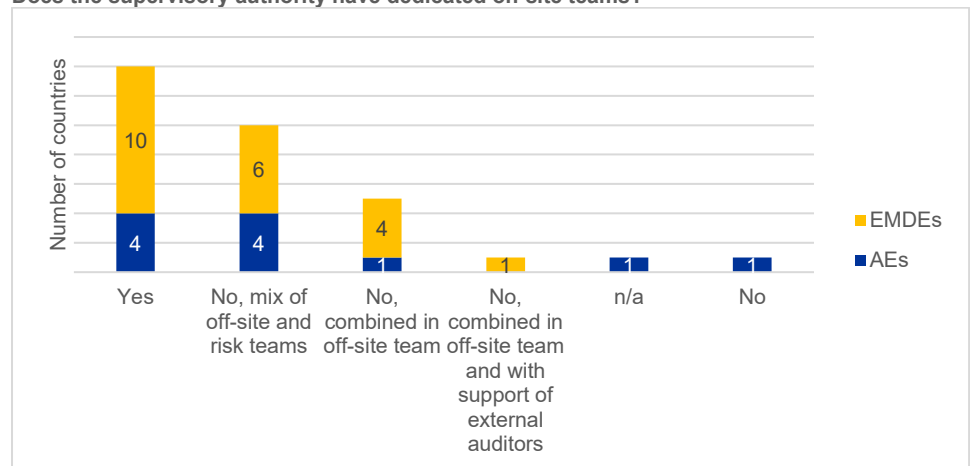


Figure 5
Number of assessed countries that reported having dedicated on-site teams or departments

Does the supervisory authority have dedicated on-site teams?



According to the FSAP assessments we sampled, several supervisory authorities, including those in Hong Kong, Moldova, Japan, China, Turkey, the EU, Mexico, the West African Economic and Monetary Union, Iceland, Saudi Arabia and Kazakhstan, have independent on-site inspection teams.

The Hong Kong Monetary Authority (HKMA)^{11,12} has several on-site examination teams within each of its banking supervision divisions. These highly specialised teams are capable of performing both on-site and off-site activities. The HKMA conducts regular on-site examinations of locally incorporated banks at least once a year, while the frequency for authorised institutions (AIs) outside Hong Kong is determined by their risk profile and the extent to which the HKMA believes it can rely on the quality of supervision carried out by the AI's home supervisor. The scope and frequency of examinations depend on issues and concerns identified during the risk-based supervisory process. For institutions assessed as carrying a lower risk, the frequency of examinations can range from three to five years, while major institutions undergo multiple examinations every year. The duration of an on-site examination can vary from two weeks to several months, depending on its depth and breadth.

The National Bank of Moldova (NBM)^{13,14} requires a similar frequency of on-site inspection, insisting that all banks undergo a comprehensive on-site review once a year, regardless of their risk profile or systemic importance. Closer attention may be directed to specific areas if there are particular concerns. On-site activities are carried out according to a semi-annual plan, which may be amended for targeted examinations if off-site surveillance identifies deficiencies requiring immediate action. The size of the inspection team may vary, based on the bank's size. At the time of the assessment, on-site resources were located within the Division of Banking Control and AML/CFT Monitoring, divided into two units: one for bank activity control with 13 staff members, and another for AML/CFT with three staff members. Off-site resources are part of the Special Supervision and Off-site Division, including a unit for regular monitoring of banks, risk assessment, and financial reporting featuring six members, a unit for special supervision with seven members, and a unit dedicated to crisis management with four members.

Japan's largest banks also typically undergo annual on-site inspections, while regional financial institutions are inspected every two to three years. Japan's Financial Services Agency (JFSA)^{15,16} assigns the supervisory bureau to oversee off-site monitoring and the inspection bureau to conduct on-site inspections. On-site inspections, guided by the JFSA's Bank Inspection Manual, evaluate banks' risk management system and controls, with each inspected area receiving a specific

¹¹ See <https://www.hkma.gov.hk/eng/>.

¹² "People's Republic of China-Hong Kong Special Administrative Region: Financial Sector Assessment Program-Basel Core Principles for Effective Banking Supervision-Detailed Assessment of Observance", *IMF Staff Country Reports*, July 2014.

¹³ See <https://www.bnm.md/en>.

¹⁴ "Republic of Moldova: Financial Sector Assessment Program-Detailed Assessment of Observance on the Basel Core Principles for Effective Banking Supervision", *IMF Staff Country Reports*, February 2016.

¹⁵ See <https://www.fsa.go.jp/en/>.

¹⁶ "Japan: Financial Sector Assessment Program-Detailed Assessment of Observance on Basel Core Principles for Effective Banking Supervision", *IMF Staff Country Reports*, September 2017.

rating. Close to the FSAP assessment date (2017), the JFSA adjusted its balance of off-site and on-site activities to focus more heavily on on-site inspections. While previously, a single comprehensive on-site inspection covered all risk areas, since 2014 a more targeted approach has been followed, concentrating on specific risk areas such as credit or market risk. The off-site supervisory teams are responsible for following up on the on-site findings and taking remedial action by conducting interviews and assessing the adequacy of the corrective measures taken by banks. On-site inspectors also take part in these follow-up meetings to ensure the proper rectification of findings.

In 2015, a total of 2,142 and 2,260 supervisors from the China Banking Regulatory Commission (CBRC)^{17,18} were engaged in off-site surveillance (OSS) and on-site examinations of large Chinese banks, respectively. These departments function as part of an integrated supervisory process. Off-site supervisors, with each bank assigned a chief supervisor responsible for its surveillance, continuously analyse the banks' major risk areas, helping to determine the priorities and scope of on-site examinations. During such on-site work, which is headed up by a chief examiner, the examiners are tasked with independently verifying, validating and confirming the business status, risk level, management quality, and potential weaknesses of the institutions being examined. Following an on-site examination, the findings – documented as Supervisory Opinions of On-Site Examination – are sent to the relevant departments responsible for addressing the issues identified, including all necessary corrections and ongoing monitoring. The scope and intensity of both on-site and off-site supervisory activities are determined by the institution's size, complexity, risk profile, risk developments and systemic importance.

The supervisory framework of Türkiye's Banking Regulation and Supervisory Authority (BRSA)^{19,20} also consists of two complementary key activities: on-site and off-site supervision. The specific scope and extent of the supervision process are determined during the strategic planning phase of the supervisory cycle, drawing on findings from previous inspections and current risk evaluations. Inspection plans also outline the terms of assignment for examiners and the duties they are to perform. Banks categorised as “red” undergo annual on-site examinations, those in the “yellow” category are examined at least once every two years, and banks in the “green” category are examined at least once every three years. As of 2017, approximately 75 on-site examiners were assigned to conduct bank inspections. Additionally, 29 examiners handled specific examinations related to customer complaints, alleged criminal activities among bank staff, and similar issues, while eight examiners were part of the internal review team. There were also 13 on-site examiners at the Risk Management and Financial Consumer Relations Departments who conducted ad hoc examinations to complement regular supervisory activities, although they were not part of regular bank or non-bank institution examinations.

¹⁷ See <https://www.nfra.gov.cn/en/view/pages/>.

¹⁸ “People's Republic of China: Financial Sector Assessment Program-Detailed Assessment of Observance of the Insurance Core Principles”, *IMF Staff Country Reports*, December 2017.

¹⁹ See <https://www.bddk.org.tr/>.

²⁰ “Turkey: Financial Sector Assessment Program-Detailed Assessment of Observance of the Basel Core Principles for Effective Banking Supervision”, *IMF Staff Country Reports*, February 2017.

Other BRSA experts, including legal and IT specialists, may also be assigned to these groups when necessary. The team leader typically oversees the inspection of the same set of banks for three years, while the examiners on the team change with each supervisory cycle.

In the context of European banking supervision and the Single Supervisory Mechanism (SSM)²¹, and as described at greater length in the publicly available *Guide to on-site inspections and internal model investigations*²² and in the 2018 FSAP assessment²³, the term “inspection” encompasses comprehensive investigations of risk, risk controls and governance (on-site inspections, or OSIs), as well as thorough assessments of internal models used to calculate own fund requirements (internal model investigations, or IMIs). These examinations are referred to herein as “on-site examinations”. They are initiated by the off-site supervision teams (Joint Supervisory Teams, or JSTs), but are planned and conducted independently by a separate directorate, namely the Directorate General On-Site and Internal Model Inspections (DG-OMI). JSTs can request on-site examinations based on the newly implemented Risk Tolerance Framework (RTF)²⁴, which seeks to strengthen the risk-based supervisory approach by combining top-down guidance from the SSM’s Supervisory Board (SB) on prioritised risks and vulnerabilities with bottom-up relevance assessments for each supervised entity and optimising resource allocation in accordance with the scope, size and complexity of the institution being inspected. Once approved by the SB, on-site examinations are planned and carried out by personnel from both the European Central Bank (ECB) and national competent authorities (NCAs), as well as by JST members or other individuals authorised by the ECB, such as external consultants, who are regarded as regular team members during the inspection. The Head of Mission (HoM) and the inspection team operate independently from but in collaboration with the JST. The duration and composition of the inspection team depend on several factors, including the scope, size and complexity of the institution being inspected. The ECB may conduct inspections in Member States participating in the SSM, with the assistance of NCAs; in EU Member States not participating in the SSM; or in non-EU countries, taking into account any cooperation arrangements or agreements established with the supervisory authorities of the jurisdictions where the inspections are to be conducted. According to the most recent Annual Report²⁵, a total of 178 OSIs and 83 IMIs were launched for Significant Institutions (SIs) in 2023, with the majority conducted using hybrid working arrangements.

²¹ See <https://www.bankingsupervision.europa.eu>.

²² *Guide to on-site inspections and internal model investigations* (September 2018), https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.osi_guide201809.en.pdf.

²³ “Euro Area Policies: Financial Sector Assessment Program-Technical Note-Detailed Assessment of Observance of Basel Core Principles for Effective Banking Supervision”, *IMF Staff Country Reports*, July 2018.

²⁴ See “Supervisors’ risk tolerance: focusing on what matters most”, *Supervision Newsletter*, ECB, August 2023.

²⁵ *2023 ECB Banking Supervision Annual Report*, <https://www.bankingsupervision.europa.eu/press/other-publications/annual-report/html/ssm.ar2023~2def923d71.en.html#toc25>.

Mexico's Comisión Nacional Bancaria y de Valores (CNBV)^{26,27}, the country's banking and securities commission, splits the responsibilities for off-site and on-site supervisory tasks between two vice-presidencies, each having roughly the same number of supervisory departments (Direcciones Generales de Supervisión) and examiners. When determining the strategy for on-site inspections, supervisors consider several criteria, including the findings of the Risk-based Rating System matrix, supervisory priorities, results from previous examinations, relevant external events, and new regulations. The outcomes of these inspections are shared with the off-site supervision team to facilitate follow-up actions and fine-tune the way institutions are assessed. They may also lead to sanctions and corrective measures, should this prove necessary. The inspection process is planned by each Deputy General Director responsible for the bank under review, and meetings are organised with all the on-site and off-site staff involved to clarify the objectives of the examination.

The supervision of credit institutions by the Secrétariat Général de la Commission Bancaire (SGCB)^{28,29} of the West African Monetary Union (WAMU) is organised through a control structure headed up by three divisions: the Directorate of Permanent Supervision (DSP), responsible for off-site supervision, and the Directorate of On-Site Supervision of Credit and Electronic Money Institutions (DCPEME) and the Directorate of On-Site Supervision of Decentralised Financial Systems (SFD), which handle on-site inspections. More precisely, the DCPEME (DCPEME) runs the on-site supervision programme for credit institutions, financial companies, and electronic money institutions, with each on-site monitoring team led by a mission head. Meanwhile, the SFD is tasked with implementing the SFD inspection programme, with its teams also led by mission heads. In practice, the SGCB maintains separate directorates for on-site and off-site supervision, with limited regular interaction between their staff, although off-site supervisors occasionally participate in on-site activities. The on-site supervision team (excluding decentralised financial systems) comprises 20 members: one director, one deputy, one assistant, six mission heads, three senior inspectors (equivalent to deputy directors), three principal inspectors (equivalent to unit chiefs), and five inspectors. Four types of inspections are conducted: general inspections, which are becoming less frequent, with just three conducted in 2019; special inspections, which focus on various topics identified by off-site supervision, such as credit risk, risk control, AML-CFT and governance, with a total of 33 conducted in 2019; topical missions target one specific area, like AML-CFT, with two conducted in 2019; And lastly inspections focusing on the implementation of recommendations, of which two were conducted in 2019. A mission is announced one month in advance and is preceded by a pre-audit phase. Topical missions typically last one week, special missions two weeks, and those for systemically important institutions three weeks. Before leaving the institution, a feedback sheet with provisional findings is submitted, with the institution

²⁶ See <https://www.gob.mx/cnbv>.

²⁷ See "Mexico: Financial Sector Assessment Program-Detailed Assessment of Observance of Basel Core Principles for Effective Banking Supervision", *IMF Staff Country Reports*, March 2023.

²⁸ See <https://www.cb-umoa.org/en/presentation-general-secretariat-wamu-banking-commission>.

²⁹ See "West African Economic and Monetary Union: Financial Sector Assessment Program-Detailed Assessment Report on the Basel Core Principles for Effective Banking Supervision", *IMF Staff Country Reports*, December 2022.

given one week to respond. The mission head then has one week to submit the report after the on-site mission concludes. The preliminary report is pre-validated by the director and by a peer mission head. It is reviewed by a committee comprising all directors and deputies, the Secretary General, and the Deputy Secretary General. The follow-up letter, addressed to the Chair of the Board of Directors of the institution, the Minister of Finance of the country where the institution is licensed, and the Chair of the WAMU Banking Commission (CBU), is drafted by the on-site supervision authorities and signed by the Secretary General of the CBU. There is a six-week interval between filing the report and preparing the follow-up letters.

On-site and off-site examinations also happen to be split among two divisions at the Saudi Arabian Monetary Authority (SAMA)^{30,31}. Off-site monitoring is managed by the Banking Supervision Division (BS Division), while on-site activities are conducted by the Banking Inspection Division (BI Division) as part of the larger Banking Supervision Department. The BS Division's supervisory stance and risk assessment guide the volume and scope of inspections and supervisory action. The BI Division conducts scheduled inspections and issues inspection reports to the banks. If the BI Division cannot complete the planned activities, any adjustments, along with their justifications, are submitted to the Deputy Governor for approval. Following the issuance of inspection reports and letters from other supervisory activities, the BI Division implements a structured follow-up process to ensure that banks act upon the post-inspection action plans. Additionally, the BS Division integrates the inspection results into the updated risk profile of each banking group. Supervisory teams discuss the scope of requirements with the inspection team, which then identifies resourcing needs from three areas: Banking Supervision Department supervisors and inspectors, SAMA specialists, and external resources.

At the Kazakhstan Agency for Regulation and Development of the Financial Market (ARDFM)^{32,33}, off-site supervision is entrusted to two divisions: the Domestic Systemically Important Banks (D-SIBs) Division and a further division tasked with overseeing Group II banks and other organisations. There is also a dedicated Bank Inspection Division staffed by 13 resources. The Supervisory Action Programme is instrumental in planning and conducting these activities, which are carried out by off-site divisions based on the Supervisory Review and Evaluation Process (SREP) rating, results from the most recent risk-based inspections, and other risk-related assessments. The ARDFM conducts two types of on-site inspections: risk-based inspections, which are initiated based on a bank's risk level and take place no more than once a year; and surprise inspections, which are conducted in response to specific legal requirements, such as reports of legal breaches, supervisory findings of violations or potential risks to financial stability. Both risk-based and surprise inspections can be either comprehensive or targeted and may be conducted independently or in collaboration with other state bodies or organisations. These

³⁰ See <https://www.sama.gov.sa/en-US>.

³¹ "Saudi Arabia: Financial Sector Assessment Program-Detailed Assessment of Observance-Basel Core Principles for Effective Banking Supervision", *IMF Staff Country Reports*, September 2024.

³² See <https://www.gov.kz/memleket/entities/ardfm?lang=en>.

³³ "Republic of Kazakhstan: Financial Sector Assessment Program-Detailed Assessment of Observance of the Basel Core Principles for Effective Banking Supervision", *IMF Staff Country Reports*, February 2024.

inspections last up to 30 business days, although this period may be extended by a further 30 working days if necessary. During an inspection, preliminary findings are communicated to the bank in the form of interim acts for approval. The final results are then shared with the bank's management within 30 business days following the end of the inspection, and the bank is allowed ten business days to submit any objections.

Elsewhere, the Iceland Financial Supervisory Authority (FSA)^{34,35} divides on-site and off-site supervisory functions across different departments within the Central Bank of Iceland (CBI) and the FSA. The Banking Department primarily handles off-site supervision, with risk specialists working horizontally across all banks. The Compliance and Inspections Department is responsible for conducting on-site inspections, supported by risk specialists from the Banking Department when necessary. The Banking Department oversees the Supervisory Review and Evaluation Process (SREP) cycle and may, as part of the planning process, request the on-site inspection team to focus on specific areas of concern. Follow-up inspections may be required to address any deficiencies identified in previous on-site inspections. On-site inspections are generally conducted as thematic reviews, covering all three domestic systemically important Banks (D-SIBs), with individual follow-up inspections performed as needed. For on-site inspections, draft reports are provided to banks before the exit meeting, and these reports are subject to formal opposition proceedings. A final report is typically issued a few weeks after the exit meeting.

In contrast, certain supervisory authorities, such as those in Canada, South Korea, Georgia, Peru, Indonesia, the United Kingdom, India, Brazil and Australia, do not distinguish between off-site and on-site responsibilities, assigning both to the same teams. In these cases, on-site examinations fall within the remit of the off-site teams and are supported to varying degrees by other supervisory or risk experts.

In the case of the Office of the Superintendent of Financial Institutions (OSFI)^{36, 37} in Canada, the organisational model is risk-based and distinguishes between line supervisors dedicated to banks, and specialists in areas such as credit, models and market risk. While both line supervisors and specialist teams may conduct on-site visits, the latter will include at least one member of the line supervisory staff to enhance the understanding and integration of the process. The number, expertise and experience of the assigned staff are determined by the size, nature, complexity and risk profile of each bank. A team of approximately seven staff members is specifically dedicated to each of the six major Canadian banks. The same supervisory team carries out the full spectrum of supervisory work (from light off-site

³⁴ See <https://cb.is/>.

³⁵ "Iceland: Financial Sector Assessment Program-Technical Note on Detailed Assessment on Basel Core Principles for Effective Banking Supervision", *IMF Staff Country Reports*, July 2023.

³⁶ See <https://www.osfi-bsif.gc.ca/en>.

³⁷ "Canada: Financial Sector Assessment Program-Basel Core Principles for Effective Banking Supervision-Detailed Assessment of Observance", *IMF Staff Country Reports*, March 2024.

to extensive on-site activities) for any specific bank, with both off-site and on-site supervision being conducted by the same personnel.

At the South Korea Financial Supervisory Service (FSS)^{38,39}, bank supervision functions are distributed across several departments. The main banking supervisory responsibilities are centralised under two deputy governors: Deputy Governor 1 (DG1) and Deputy Governor 2 (DG2). On-site examination duties and most off-site surveillance activities fall within the purview of the two Examination Departments and the Foreign Bank Branch Examination Department within DG2. Banks are apportioned among Examination Departments 1 and 2, with commercial and regional banks separated from specialised banks. Each Examination Department includes a dedicated monitoring team tasked with the off-site surveillance of banks. Full-scope examinations are conducted once every two years for all banks, irrespective of their risk profile, with teams comprising 25 to 30 staff members. These teams include personnel from various divisions within a department, such as the Risks team along with specialists from other departments to cover areas like FX operations, derivatives and IT. The duration of these examinations, or the number of staff assigned to them, does not appear to be influenced by a bank's risk profile or systemic importance but rather by the issues to be examined.

The National Bank of Georgia (NBG)^{40,41} has also combined its on-site and off-site supervision functions. Both the Banking Supervision Department and the specialist risk teams, which include the Specialised Groups and Supervisory Policy Department, engage in a combination of on-site and off-site activities, with most of the work conducted off-site. The specific balance between on-site and off-site inspections is determined by both risk supervisors and bank supervisors, based on the ongoing supervisory process, despite there being no mandated inspection frequency.

Similarly, Peru's Superintendence of Banks, Insurers, and Private Pension Funds (SBS)^{42, 43} entrusts a broad mix of on-site and off-site activities to both of its deputy superintendencies, namely the Superintendence of Banking and Microfinance Institutions (SABM) and the Superintendence of Specialised Risks (SAR). Off-site surveillance involves the monitoring and analysis of both financial and non-financial information, which is enhanced by on-site examinations to ascertain the risk profile of banks and banking groups. On-site examinations are conducted annually, following the annual plan and supervisory strategy for each bank. SAR focuses on individual risks, while SABM oversees banks, their ratings, and the overall supervisory strategy. On-site examinations are headed up by a lead inspector and their team from SABM, with specialists from SAR as needed. For major banks, these teams

³⁸ See <https://www.fss.or.kr/eng/main/main.do?menuNo=400000>.

³⁹ "Republic of Korea: Financial Sector Assessment Program-Detailed Assessment of Compliance on the Basel Core Principles for Effective Banking Supervision", *IMF Staff Country Reports*, October 2014

⁴⁰ See <https://nbg.gov.ge/en>.

⁴¹ "Georgia: Financial Sector Assessment Program-Detailed Assessment of Observance of the Basel Core Principles for Effective Banking Supervision-Technical Note", *IMF Staff Country Reports*, January 2015.

⁴² See <https://www.sbs.gob.pe/>.

⁴³ "Peru: Financial Sector Assessment Program-Detailed Assessment of Observance - Basel Core Principles for Effective Banking Supervision", *IMF Staff Country Reports*, December 2018.

include specialists for each risk, a conglomerates specialist, a legal specialist, and a market conduct specialist. The teams conduct scheduled examinations based on an annual inspection plan, which outlines the scope of each visit and is carried out by SABM in coordination with SAR.

At Indonesia's Financial Services Authority (OJK)^{44, 45} supervisors assigned to banks and banking groups are responsible for conducting both off-site and on-site supervision and drawing up supervisory action plans, consisting of both off-site and on-site engagements, with each bank having a dedicated team. The extent of the off-site and on-site activities included in a supervisory plan largely depends on a bank's risk profile and soundness. According to the methodology, on-site examinations should take place at least once a year and can be either full scope or targeted, focusing on specific products, functional areas, or risks. Specialist supervisors, or risk experts, assist by taking part in on-site inspections and off-site reviews, concentrating on specific and thematic areas. Currently, these risk experts perform both off-site reviews and on-site supervisory reviews, addressing particular and thematic concerns.

Similarly, the UK Prudential Regulation Authority (PRA)^{46, 47} assigns a dedicated team of supervisors to each of the largest and most systemically important firms. This team conducts both on-site and off-site supervision, bringing in specialists from outside the team when needed. It is responsible for coordinating and carrying out all supervisory activities. For firms with the highest potential impact, the PRA employs a combination of on-site testing or inspections and "baseline monitoring", which includes off-site monitoring and analysis, along with discussions with the firms' managers and staff.

At the Reserve Bank of India (RBI)^{48, 49} the two largest Domestic-SIBs have a dedicated professional team of six or seven examiners under a Senior Supervisory Manager (SSM); additional staff may be brought in as and when needed from other RBI departments with specialised skills for examinations dealing with such specialised topics as IT, management information systems, or model validation. On-site engagements are planned annually based on off-site analysis and relative impact assessments. Most banks undergo full-scope examinations at least once every 12-18 months under the Supervisory Programme for Assessment of Risk and Capital (SPARC) framework, while 32 smaller banks are examined using a simplified model.

⁴⁴ See <https://ojk.go.id/en/>.

⁴⁵ "Indonesia: Financial Sector Assessment Program-Detailed Assessment of Observance-Basel Core Principles for Effective Banking Supervision", *IMF Staff Country Reports*, August 2024.

⁴⁶ See <https://www.bankofengland.co.uk/prudential-regulation>.

⁴⁷ "United Kingdom: Financial Sector Assessment Program-Basel Core Principles for Effective Banking Supervision-Detailed Assessment Report", *IMF Staff Country Reports*, June 2016.

⁴⁸ See <https://website.rbi.org.in/en/web/rbi>.

⁴⁹ "India: Financial Sector Assessment Program-Detailed Assessment of Observance of the Basel Core Principles for Effective Banking Supervision", *IMF Staff Country Reports*, January 2018.

Supervisory activities at the Central Bank of Brazil (BCB)^{50,51} are managed by the Department of Supervision of Banking Institutions (DESUP), which serves as the main point of contact for institutions. This department is responsible for both off-site and on-site activities, ongoing monitoring, and conducting horizontal reviews. On-site inspections are typically planned during the preparation phase for the supervisory cycle but can be initiated at any time if new information arises. These inspections might focus on a single financial institution or involve broader horizontal reviews. They can be conducted by the supervisory team managing the conglomerate or, for special verification examinations, by specialist units within DESUP that focus on specific areas like credit, market and liquidity risk. When determining the intensity and duration of an inspection, the supervisor must apply the principle of proportionality, considering the institution's nature, size and complexity. Inspections can occur either on the institution's premises or remotely, if a physical presence is unnecessary. The goal of an inspection is to identify the institution's risks, evaluate the control environment, and assess the performance of senior management. Upon completing the inspection, a closing meeting is held with the institution's management to discuss the preliminary findings. The final conclusions are communicated through an official letter, which classifies them as irregularities (indicating rule violations in banking operations), accounting adjustments (typically requiring additional provisions), or weaknesses in internal controls.

The Australian Prudential Regulation Authority (APRA)^{52,53} employs a combination of on-site and off-site supervisory activities to evaluate authorised deposit-taking institutions (ADIs). Frontline supervisors, who are directly responsible for individual firms, are accountable for both on-site and off-site assessments and for crafting supervisory action plans. Risk specialists perform off-site analyses and engage in both firm-specific and thematic on-site supervisory reviews across groups of firms. The Supervisory Action Plan (SAP), APRA's planning document, details the strategies for both on-site and off-site supervision. Firms with a "low" impact rating might face only certain reviews every three years, while those with an "extreme" rating could be reviewed annually, with major banks drawing the most scrutiny. Risk assessments, including evaluations of internal controls, are generally conducted on-site. On-site activities include prudential reviews, which are firm-specific evaluations of inherent risks and related risk management and controls; thematic reviews, which assess specific risks and control practices across multiple firms; prudential consultations, which are formal meetings with senior management and boards of directors; meetings with external auditors; and informal assessments through discussions with firms.

⁵⁰ See <https://www.bcb.gov.br/en>.

⁵¹ "Brazil: Financial Sector Assessment Program-Detailed Assessment of Observance – Basel Core Principles for Effective Banking Supervision", *IMF Staff Country Reports*, November 2018.

⁵² See <https://www.apra.gov.au/>.

⁵³ "Australia: Financial Sector Assessment Program-Detailed Assessment of Observance-Basel Core Principles For Effective Banking Supervision", *IMF Staff Country Reports*, February 2019.

Conversely, some supervisory authorities, such as those in Thailand, Botswana and Sweden, integrate both on-site and off-site activities within a single team without regular support from other supervisory or risk departments.

The Bank of Thailand (BOT)^{54,55} supervises banks through a team of examiners led by a relationship manager (RM) and tasked with both on-site examinations and off-site analysis. BOT's on-site examinations focus on both quantitative factors (such as capital and liquidity) and qualitative aspects (such as the adequacy of board policies and the quality of risk management). All Thai banks undergo on-site examinations at least once a year. Foreign bank subsidiaries, foreign bank branches, asset management companies (AMCs), and nonbanks with a level 1 or 2 rating are examined on-site at least once every three years, while those with a level 4 or 5 rating are examined at least once a year. The resources allocated to on-site examinations (number of supervisors and days) depends on the institution's significance to the financial system. For example, larger banks receive more resources, with 20 supervisors and 40 working days allocated for banks whose total assets exceed 10% of the total assets of all Thai commercial banks. Meanwhile, smaller to medium-sized banks, with assets below 10% of the system total, are allocated 12-14 supervisors and 30 working days. Foreign bank subsidiaries or branches receive ten supervisors and ten working days. During on-site visits, supervisors verify key issues and concerns identified from off-site reviews and risk assessments. They assess the adequacy and effectiveness of the bank's operational management, risk management, oversight functions, and compliance for each Supervisory Area (SA), using a combination of top-down (interviews to assess end-to-end bank processes) and bottom-up (transaction testing) approaches.

The Banking Supervision Department (BSD) of the Bank of Botswana (BoB)^{56,57} categorises on-site examinations into three types: full-scope examinations, follow-up/limited scope examinations, and thematic on-site examinations. The BSD combines on-site and off-site supervision within the same unit, with bank examiners responsible for both functions. The scope and frequency of on-site examinations are based on the risk profile and size of a bank. Riskier banks are examined every 18 months, whereas larger banks are examined every three years. At the conclusion of an on-site examination, a preliminary exit meeting is held with the bank's relevant divisional heads to discuss the examination findings. This meeting is conducted promptly, typically after branch inspections and before the bank's exit. Following this step, the examination report is drawn up and reviewed internally. A draft report is then shared with the bank for comments, and internally, it is submitted to the Deputy Director within two weeks of the preliminary exit meeting. The examiners also conduct an exit meeting to present their findings to the bank's senior management. The BSD then submits a report to the board, detailing the main findings and the bank's financial condition. To complete the process, the BSD conducts follow-up on-

⁵⁴ See <https://www.bot.or.th/>.

⁵⁵ "Thailand: Financial Sector Assessment Program-Detailed Assessment of Observance-Basel Core Principles For Effective Banking Supervision", *IMF Staff Country Reports*, October 2019.

⁵⁶ See <https://www.bankofbotswana.bw/>.

⁵⁷ "Botswana: Financial Sector Assessment Program-Detailed Assessment of Observance—Basel Core Principles for Effective Banking Supervision", *IMF Staff Country Reports*, March 2024.

site reviews to monitor progress by verifying the effective implementation of the on-site findings.

This is also the case for Sweden's Finansinspektionen (FI)^{58,59}, which does not differentiate between on-site and off-site supervisory activities, with the same experts conducting both types of assessments. The intensity of regular SREP supervision is concentrated on the three major banking groups and the two largest branches in Sweden, with these institutions being visited multiple times a year as part of the SREP process, including quarterly risk assessment updates. However, on-site visits for in-depth examinations tend to be less intrusive, typically lasting no more than 3-4 days. The main supervisory activities that entail on-site engagements include ongoing supervision, SREP, supervisory investigations, and supervisory analyses, such as deep dives and thematic surveys. On-site inspections are primarily used by FI to investigate areas of concern identified during ongoing supervision or SREP; gain a deeper understanding of credit institutions' business operations and governance; follow up on supervisory actions and recommendations; and (iv) focus on high-risk areas. Beyond the annual supervisory work plan, FI may also conduct ad hoc investigations, ranging from quick off-site assessments to comprehensive on-site and off-site investigations. The time spent on-site often varies, but rarely exceeds 3-4 days.

Some institutions opt not to conduct on-site inspections, relying instead on off-site supervision assessments or third-party examinations. For instance, this approach is followed in New Zealand, which in the 2017 FSAP received a grade of MNC for Principle 9 due to this reliance. Similarly, South Africa followed this practice until 2010. Meanwhile, Colombia's supervisory authority employs a single team to oversee banks through both on-site and off-site activities, but additionally engages external third parties who maintain a permanent presence at larger banks to assist during periods of intense supervisory demand, thus supporting the work of the internal teams.

More precisely, the Banking Supervision Department (BSD) of the South African Reserve Bank (SARB)^{60,61} used to rely on banks' statutory external auditors to verify the accuracy of their supervisory reporting and ensure compliance with regulatory requirements, as well as adherence to the banks' own policies and processes. However, following the FSAP assessment carried out in 2010, the BSD has strengthened its on-site reviews by conducting more in-depth analyses using its on-site review team. Notably, the department has increased its supervisory staff by nearly 50% since then, with the team now including a group of risk specialists to support the analysis teams and an additional on-site inspector. As of 2015, the supervision team comprised 54 members, with 34 risk specialists, 9 staff members dedicated to policy, regulation and legal affairs, 7 to IT, and 17 to on-site reviews and anti-money laundering (AML). Risk specialists, who are experts in specific risk

⁵⁸ See <https://www.fi.se/en/>.

⁵⁹ "Sweden: Financial Sector Assessment Program—Technical Note on Basel Core Principles for Effective Banking Supervision", *IMF Staff Country Reports*, April 2023.

⁶⁰ See <https://www.resbank.co.za/en/home>.

⁶¹ "South Africa: Financial Sector Assessment Program—Detailed Assessment of Compliance on the Basel Core Principles for Effective Banking Supervision", *IMF Staff Country Reports*, March 2015.

categories, are assigned to work with individual banks as needed. They also conduct validations and reviews of banks' internal risk models, which include on-site evaluations. The on-site and AML teams concentrate on conducting "deep dive" on-site reviews, primarily focusing on AML and, at present, credit risk.

According to the information available from the 2017 FSAP assessment, the Reserve Bank of New Zealand (RBNZ)^{62,63} does not conduct inspections. Instead, it engages in on-site interactions with banks through prudential meetings, focusing primarily on the ten largest banks. These meetings serve as a platform for discussing the outcomes of supervisory analyses and addressing other issues identified by the RBNZ. Additionally, thematic visits are conducted to examine systemic issues in greater depth. However, these visits do not involve direct access to bank records or files; instead, they rely on additional requests for information and on questionnaires.

Colombia's Financial Superintendency (SFC)^{64,65} relies on supervisory teams to oversee a number of banks through both on-site and off-site activities. On-site activities include bank visits, ad hoc requests for information from internal and external auditors, verification procedures, and analysis. The SFC may supplement its own supervisory activities by engaging external auditors, who maintain permanent staff at larger banks; this practice often happens during periods when numerous new regulations are being implemented. The supervisory process assigns a level of supervision classification to each entity, based on its size, complexity, risk profile and interconnection within the financial system. Entities may be categorised as N1, N2 or N3, with N1 representing the highest supervision intensity. Depending on the "N" classification and whether the entity is part of a larger conglomerate, supervisors may be dedicated exclusively to a single financial conglomerate or oversee multiple entities. Every year, a supervisory plan is crafted for each bank, identifying significant activities and assessing a set of inherent risks for each. It is structured around four procedures: risk profile assessment, planning, and on-site and off-site execution.

⁶² See <https://www.rbnz.govt.nz/>.

⁶³ "New Zealand: Financial Sector Assessment Program: Detailed Assessment of Observance-Basel Core Principles for Effective Banking Supervision", *IMF Staff Country Reports*, May 2017.

⁶⁴ See <https://www.superfinanciera.gov.co/>.

⁶⁵ "Colombia: Financial Sector Assessment Program—Detailed Assessment of Observance of the Basel Core Principles for Effective Banking Supervision", *IMF Staff Country Reports*, May 2022.

3 Major areas of improvement in relation to on-site examinations highlighted by FSAP analysis

The previous section outlines the most common organisational practices among supervisory authorities with respect to on-site examination processes. For example, while BCP 9 does not prescribe a specific combination of off-site and on-site supervisory activities – making the practices discussed in the previous section both acceptable and worthy of investigation – it does require certain conditions to be met under its Essential Criteria (EC) for compliance.

A similar approach is required for other BCPs that provide high-level guidance on supervisory reporting (BCP 10), sanctions and enforcement (BCP 11), consolidated supervision of bank groups (BCP 12), home-host relationships of supervisors of cross-border banking groups (BCP 13), and AML supervision (BCP 29). If a supervisory authority fails to implement processes in line with the EC for a specific BCP, this will affect the final compliance assessment for that BCP and the grade will be adjusted accordingly, with justification provided in the comments of the assessment for that specific principle.

This section aims to explore the most common discrepancies identified by BCP assessors in the realm of on-site examinations when evaluating the degree of compliance among our sample of supervisory authorities with the guidance provided by the BCPs and their related EC. This analysis will help to identify the most common challenges supervisors encounter when implementing and performing on-site inspection activities.

3.1 Balance between off-site and on-site supervision

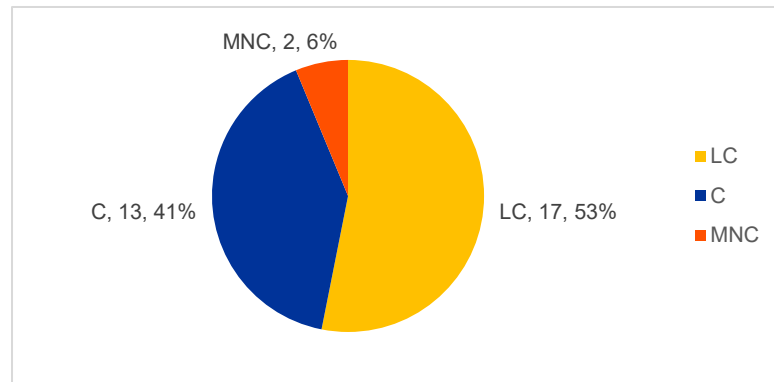
While BCP 9 does not prescribe a particular mix of off-site and on-site supervisory activities, it does require that a suitable balance be maintained, thus ensuring coherent planning for consistent execution and facilitating effective information sharing between the two functions.

Figure 6 below provides an overview of the degree of compliance with BCP 9 among the 32 authorities we sampled. The majority (17, representing 53% of the sample) are largely compliant with the principle, followed by a significant number that are fully compliant (13, or 41% of the sample), while only a small number (2, representing 6% of the sample) are materially non-compliant.

Figure 6

Overview of the compliance status of the 32 sampled countries with BCP 9: “Supervisory Techniques and Tools”

A majority of supervisory authorities are largely compliant with BCP 9



Note: MNC = Materially non-compliant; LC = Largely compliant; C = Compliant.

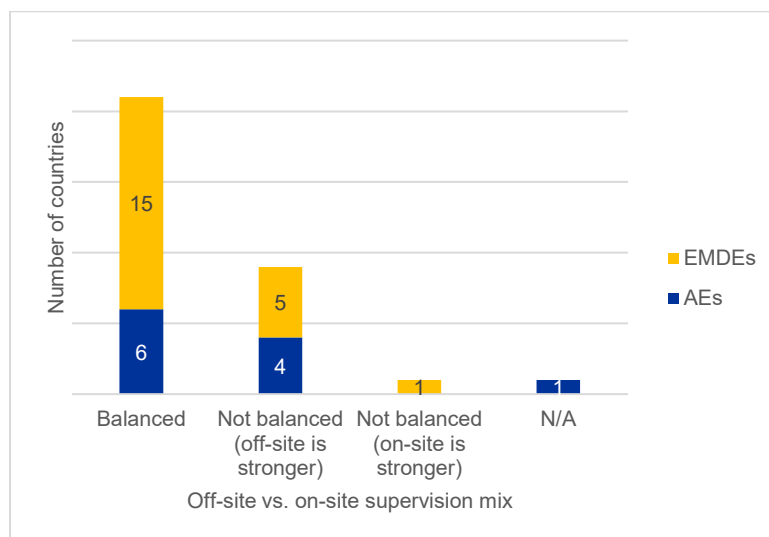
A majority of the 32 supervisory authorities analysed (21, representing 65% of the sample) maintain a balanced and appropriate mix of on-site and off-site supervision, in accordance with EC 1 of BCP 9. In these instances, there is typically strong collaboration between off-site and on-site supervision teams, making them complementary tools for gaining a comprehensive understanding of a bank’s risk and control frameworks. On-site inspections are conducted regularly, guided by inputs and triggers from off-site supervision, and the bank’s risk profile determines the scope, frequency and intensity of supervisory activities.

This is followed by a group of authorities (9, representing 28% of the sample) where off-site supervision is the predominant type of supervision (see Figure 7). The imbalance favouring off-site over on-site supervision can be due to several factors: where comprehensive on-site inspections are conducted only sporadically (in one particular case being conducted only once every two years); where limited time is spent on-site (as happened in another case); where the on-site examination is not commensurate to the bank’s size and risk, or fails to consider its systemic importance, or conversely, where there are not enough on-site examinations for less significant institutions; or where the on-site inspections are carried out too infrequently or fall short in their risk coverage (as happened in four cases). The only case in which there is greater reliance on on-site rather than off-site inspections is due to a shortage of staff capable of executing a fully effective supervisory programme, which also happens to hinder the implementation of a sufficiently comprehensive and frequent inspection programme.

Figure 7

Number of assessed countries by mix of off-site and on-site supervisory techniques

A majority of the countries assessed maintain a rough balance between off-site and on-site supervisory techniques



3.2 Communication of supervisory findings to board of banks

Additionally, BCP 9 mandates timely communication of the findings and results of both off-site and on-site activities to the bank through written reports or meetings, as appropriate (EC 4 and 8). There should also be sufficient communication with the bank's board, non-executive board members, and senior and middle management (EC 7).

The analysis conducted on our sample of 32 countries reveals that a majority of them (20, representing 62.5% of the sample) show weaknesses in their supervisory communication with banks (see Figure 8 below). These issues might stem from insufficient or irregular contact with board members (in 14 cases), or delays in releasing the OSI report to banks following an on-site examination (in 4 cases). In one instance, overly detailed OSI reports tend to blur key messages, especially when directed at the board of directors. In another case, communication with banks is overly informal, with findings being shared via email, making it difficult to trace and maintain for audit purposes, rather than through official communication channels or letters.

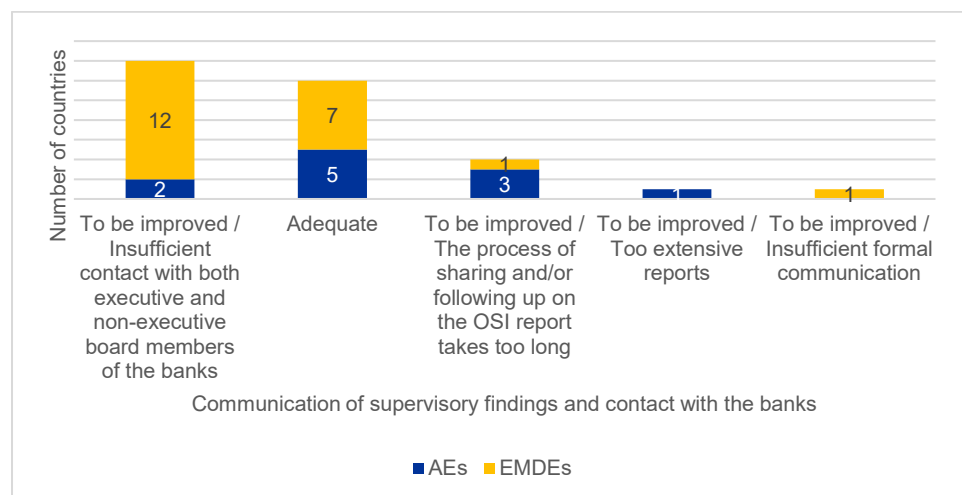
In the 14 instances where contact with board members is insufficient, various issues have been identified. In one case, although the quality of communication is generally strong, the supervisory authority has no systematic approach for interacting directly with bank boards, revealing the need for a greater focus on key priorities for banks. In another instance, the supervisory authority should review its communication

strategy with banks to strengthen its relationship with the supervisory board and update instructions and regulations as needed. While inspection findings must be communicated in writing, there is no obligation to hold a closing meeting to present the conclusions. In another case, the authority would do well to establish a policy regarding the minimum frequency of meetings with board members and the communication of off-site findings. Typically, key findings and observations are discussed at the annual meeting between the supervisory authority's director general and the boards of the largest banks. However, this practice does not extend to smaller banks, where regular contact with the board and senior management is limited, and meetings are infrequent. In yet another case, the supervisory authority engages with banks at the senior management level, including the senior leadership team, yet board engagement is not a typical component of the supervisory cycle. In at least five cases, there is no practice of meeting separately with independent board members or the board itself. For example, there is no systematic process for holding regular meetings with non-executive or independent members post-examination to discuss findings and remedial actions. Additionally, these supervisors do not meet with the board to discuss supervisory examinations and external audits, nor do they engage with independent board members.

Figure 8

Number of assessed countries based on how they communicate supervisory findings to banks and maintain sufficiently frequent contact, as appropriate, with the bank's board, non-executive board members and senior and middle management

A majority of the countries assessed show deficiencies in maintaining regular and timely contact with both executive and non-executive board members of the banks



3.3 Scope of on-site examinations

BCP 9 offers no specific guidelines regarding the scope and content of on-site examinations. Instead, it suggests that supervisors should evaluate the conditions of banks and banking groups, their risk profiles, and internal control environments (EC 1), based on various sources of information, including prudential reports, statistical returns, details about a bank's related entities, and publicly accessible information (EC 3). Supervisors are also encouraged to use tools such as financial statement and account analysis, business model analysis, horizontal peer reviews, and reviews of stress test outcomes conducted by the bank. Additionally, they should analyse corporate governance, including risk management and internal control systems (EC 4). The ultimate objective is to identify any emerging risks across individual banks and the banking system (EC 5). As a result, there are no specific guidelines from a BCP perspective regarding the scope to be covered during on-site examinations. However, in practice FSAP assessments do evaluate the coverage and scope of these examinations.

Our analysis revealed that a significant portion of supervisory authorities (14 authorities, representing 44% of the sample) conduct full-scope on-site examinations (see Figure 9). These examinations are designed to encompass the standard three lines of defence: (i) internal control departments and processes within operational work streams at the first level; (ii) independent internal control functions responsible for risk management, compliance and oversight of the most risk-sensitive operational work streams, employing checks and balances and the “four-eyes” principle at the second level; and (iii) the independent internal audit function overseeing the entire bank at the third level.

Conversely, 11 supervisory authorities (representing 34% of the sample) do not conduct full-scope on-site examinations. Among these, FSAP assessors considered the scope adequate in four cases, as examination topics are typically determined based on factors such as prevailing market conditions, emerging risks, and international or domestic regulatory developments.

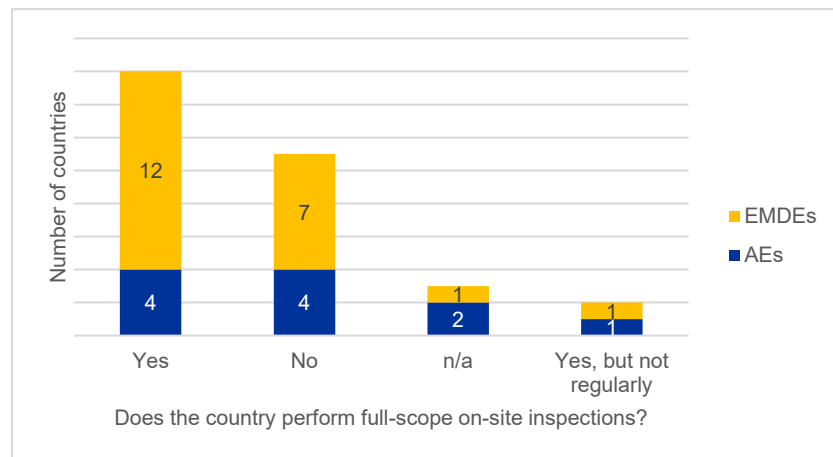
However, in the remaining cases, the scope of on-site examinations was found to be insufficiently deep or intrusive. This inadequacy was attributable to factors such as the short duration of on-site examinations, the low frequency of planned examinations, or an approach that was more compliance- than risk-based. For instance, in one case, the supervision level was deemed insufficiently intrusive, primarily due to limited on-site inspections. Supervisors typically spend only three to four days on-site, which is not enough time to conduct a thorough evaluation of, say, a bank's internal controls or the reliability of supervisory reporting data. Furthermore, this same supervisory authority lacked detailed supervisory manuals to guide its risk assessments, particularly during on-site inspections. In another instance, it was recommended that both the number and duration of topical missions focused on risk management, governance and AML-CFT be increased, allowing the supervisor to do a better job at monitoring the implementation of recommendations from follow-up

letters. Establishing a minimum frequency for on-site supervision and distinguishing between vulnerable, systemic and lower-risk institutions was also suggested. In yet another case, the supervisory reports provided to banks were considered overly rule-based and lacked depth in addressing risk management practices and corporate governance issues, thus failing to deliver meaningful findings. In a similar but different situation, it was suggested that the approach to on-site inspections be reassessed to ensure reviews are sufficiently in-depth, focusing on adequate policies and procedures, internal controls, and the robustness of the bank’s risk management processes. A standard frequency for on-site inspections applicable to all banks, regardless of their impact rating, was also recommended. In another case, it was advised that on-site inspections should place greater emphasis on evaluating a bank’s risk culture, moving away from a predominantly compliance-focused approach towards a broader, more qualitative assessment.

Figure 9

Number of assessed countries based on whether they perform full-scope on-site inspections covering all the three lines of defence

A majority of the countries assessed perform full-scope on-site inspections



3.4 Staffing of off-site and on-site functions

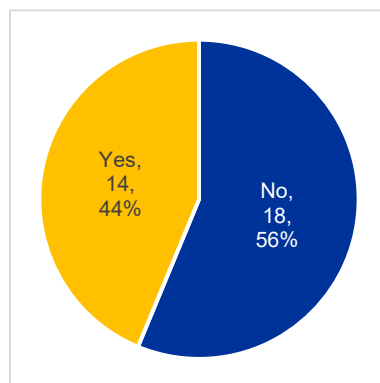
The BCPs also have little to say on the staffing of supervisory institutions for conducting off-site and on-site activities, although BCP 2 underscores the need for supervisory authorities to maintain operational independence, transparent processes, sound governance, and budgetary arrangements that support autonomy and provide sufficient resources. Specifically, EC 6 and 7 of BCP 2 state that supervisors must possess adequate resources to carry out effective supervision and oversight. They should also have sufficient financial independence to engage

external experts with the necessary professional skills and independence, as well as a travel budget to support on-site activities, along with effective cross-border cooperation. Additionally, supervisory entities are expected to assess and address any identified gaps in staffing numbers or skill sets.

Overall, the majority of supervisory authorities in the sample (18, or 56%) do not experience internal staffing shortages in off-site or on-site supervisory teams (see Figure 10 below). These authorities report having high-quality staff, often selected through rigorous exams, and being successful in attracting, retaining and training skilled personnel. They may also maintain teams specifically dedicated to each major bank in the country, with support from risk and risk specialist teams when necessary (e.g. in areas like credit, market and liquidity). Another factor cited in the context of maintaining adequate supervisory staffing levels is the ability to fund on-site work travel and resources.

Nevertheless, a significant portion of the institutions sampled (14, or 44%) do experience staffing shortages, due either to limited resources needed for effective supervision or a lack of personnel with expertise in certain complex or niche risk areas. Moreover, in at least five cases overall, the BCP assessments explicitly mention that limited resources directly affect the frequency and intensity of on-site inspections. In nine cases, BCP assessors suggest that the supervisory authorities concerned should increase their resources, in some instances because there are not enough resources to effectively manage the growing number and complexity of institutions under their supervision, despite the presence of skilled personnel. In the other five cases, BCP assessors advise the supervisory authorities to build and maintain adequate expertise in specific complex areas such as risk modelling, market risk, interest rate risk in the banking book (IRRBB), anti-money laundering (AML) and cybersecurity. This lack of expertise makes it harder for authorities to fulfil their supervisory mandate and also exposes them to the risk of relying on key individuals in certain areas. For example, in one particular case, resource constraints remain a significant challenge for the supervisory authority, which struggles to attract and retain experienced risk experts.

Figure 10
Sampled countries by shortage in supervisory staff



3.5 Use of externals to conduct supervisory activities

As mentioned earlier, the BCPs envisage the use of independent third parties, such as externals or auditors, to conduct off-site and on-site activities, provided there is a clear and detailed mandate for their work. Under no circumstances may the supervisory authority outsource its prudential responsibilities to these third parties (EC 11). Additionally, the supervisor should clearly define and document the roles and responsibilities of external experts, including the scope of their work when they are engaged to perform supervisory tasks. It should also evaluate the suitability of these experts, the quality of their work, and consider any potential conflicts of interest (BCP 10, EC 10).

Our sample shows that only a small number of supervisory authorities (3, or 9% of the sample) do not rely on external experts as part of their supervisory tasks (see Figure 11). This is because they have no need or desire to do so, as they are already adequately staffed with knowledgeable and experienced personnel capable of effectively carrying out both off-site and on-site supervisory tasks. Indeed, these supervisory authorities have no staffing shortages within their supervisory teams (see Figure 12). Interestingly, in one case, the supervisory authority hired fixed-term permanent employees with extensive industry experience to address a shortage of supervisory staff in the IT area. Its aim in doing so was to enhance its depth of knowledge in critical areas without relying further on external support.

The percentage of supervisory authorities not utilising external support rises to 47% when we include those authorities that did not rely on external workforce support, either intentionally or in practice, despite being permitted to do so under their internal policies. Among these authorities, the majority (7, or 58%) were facing staffing shortages, but have not yet engaged external support due to budget constraints, lack of opportunities, or intentional choice.

Over half of the supervisory authorities included in the sample (17, or 53%) do rely on external support. Among these, some have been identified as having a staffing shortage for supervisory tasks (41%), while the majority are assessed as adequately staffed (59%).

Examining the distribution of supervisory authorities with dedicated on-site inspection teams or departments, there is an equal split between those that utilise external experts (50%) and those that either intentionally do not use them or are permitted but have not done so in practice (50%) (see Figure 13).

Figure 11

Number of assessed countries by their use of external staff for conduction on-site inspections

A majority of the countries assessed rely on external staffing for conducting on-site inspections

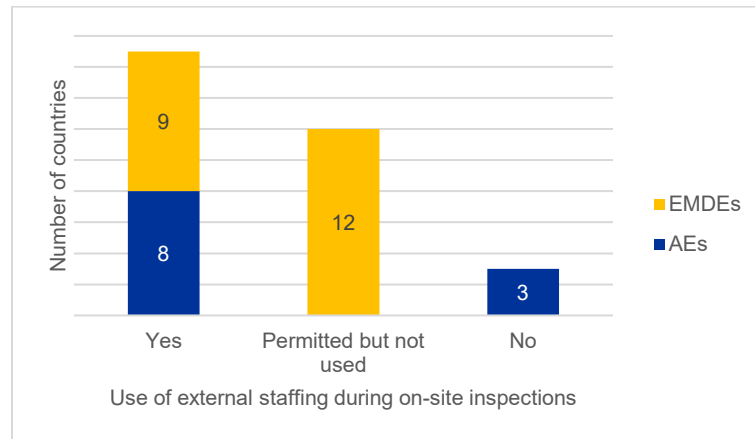


Figure 12

Number of assessed countries by their use of external staff for conduction on-site inspections and whether they exhibit a shortage in supervisory staff

Assessed countries that do not utilise external support whether they exhibit staffing shortages or not

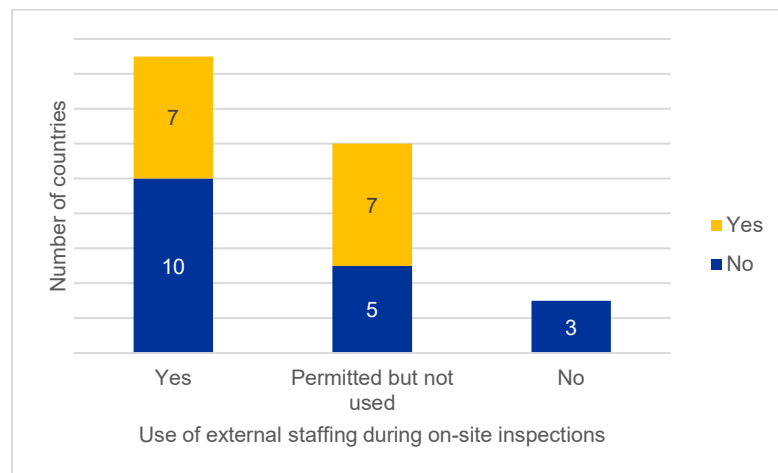
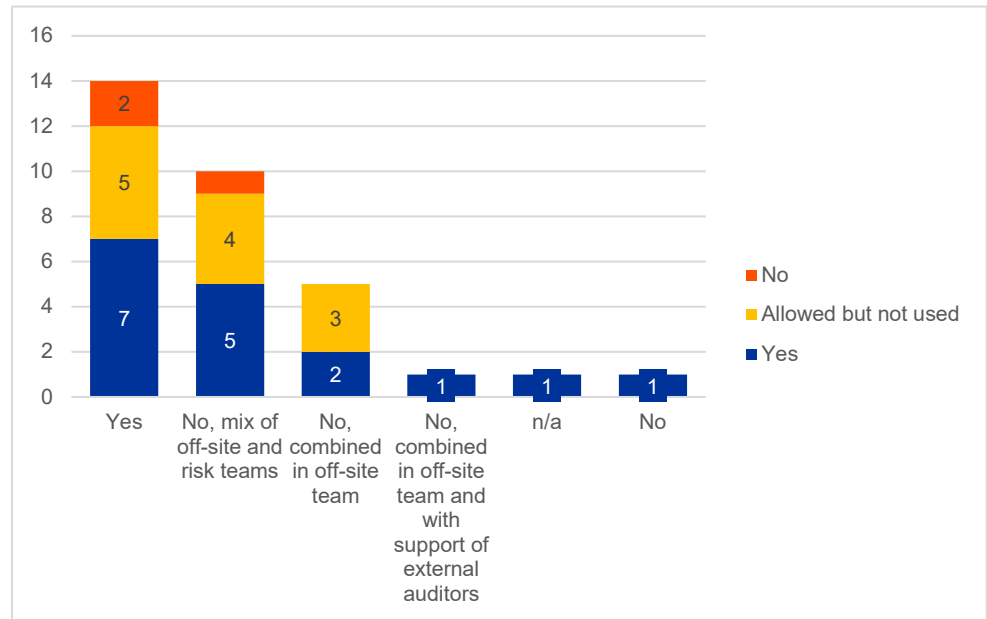


Figure 13

Number of assessed countries based on their reported structure regarding dedicated on-site teams or departments and whether they rely on external staff for conducting on-site inspection

Equal balance between supervisory authorities that use external support and those that do not for conducting supervisory activities, regardless of the different structures used for dedicated on-site teams



3.6 Sanctions and enforcement measures

BCP 11 addresses the authority granted to supervisors when they identify a bank engaging in unsound or unsafe practices, processes or activities. It outlines the supervisory tools available to address and correct such issues, including the enforcement of corrective action like ring-fencing, and the authority to impose sanctions on banks also as a result of on-site examinations, among other supervisory activities.

In our analysis of sampled supervisory authorities, nearly 60% were deemed LC with BCP 11 by BCP assessors, whereas six authorities were found to be either MNC or entirely NC (see Figure 14).

Overall, in at least four instances, BCP assessors directly cite the limited or absent enforceability of measures following on-site examination results, noting that the supervisory authority lacks authority to apply sanctions or enforce measures on senior managers or board members (see Figure 15). For instance, while in one case the supervisory authority has been authorised since 2010 to impose administrative

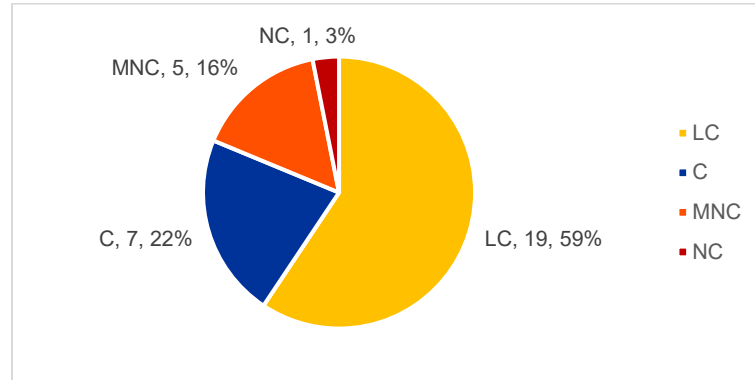
sanctions on banks deemed non-compliant with the country's laws, it only began fining most of the large banks in April 2014 based on on-site inspection findings. Despite this, the authority still cannot fine individuals associated with banks, such as board members and senior management. In another case, while the supervisory authority had a wide range of tools, measures and powers at its disposal to initiate timely corrective action, a detailed analysis of inspection outcomes and prudential responses led the assessors to conclude that the enforcement of prudential regulations fell short of the mark and needed to be improved. Furthermore, the supervisory authority's deputy governor has full discretion to determine the scope, nature and type of measures to be implemented, adopting those deemed most appropriate and effective based on supervisory findings. Consequently, the effectiveness of the measures depends heavily on the personal approach taken by the deputy governor. In a similar situation with another supervisory authority, it remains unclear whether it can undertake significant corrective action or impose substantial sanctions without prior approval from the competent ministry. Over the past five years, this supervisory authority has not undertaken any significant corrective action or imposed sanctions against bank senior management or board members for negligence, ineffectiveness or mismanagement, even though one local bank has been under "high" supervisory scrutiny for the past three years and another for two of the past three years.

In a further five cases, enforcement is considered suboptimal due to ambiguities in national laws or the internal framework of the supervisory authority, coupled with a lack of effective powers. For example, the sanctions provided for in laws governing AML/CFT and the like do not appear sufficiently to be dissuasive, particularly when it comes to the financial penalties involved. In one instance, the supervisory authority lacked internal methods for determining how the legal sanctions should be applied in practice. BCP assessors even noted that the authority's enforcement powers had weakened compared with previous assessments. In another case, the legal framework for enforcement and sanctions is complex and fragmented, containing substantive and procedural gaps that need to be resolved. These gaps fail to act as a deterrent or ensure a level playing field. Meanwhile, the preventive actions taken by another supervisory authority are not matched by enforcement activities commensurate with the associated stakes and risks. The authority has been lenient with institutions that have committed repeated violations of prudential regulations or otherwise been lax in complying with their obligations. Similarly, the special surveillance of fragile institutions can be prolonged indefinitely, and penalties lack sufficient deterrence.

Figure 14

Overview of the compliance status of the 32 sampled countries with BCP 11: “Corrective and sanctioning powers of supervisors”

A majority of supervisory authorities are largely compliant with BCP 11

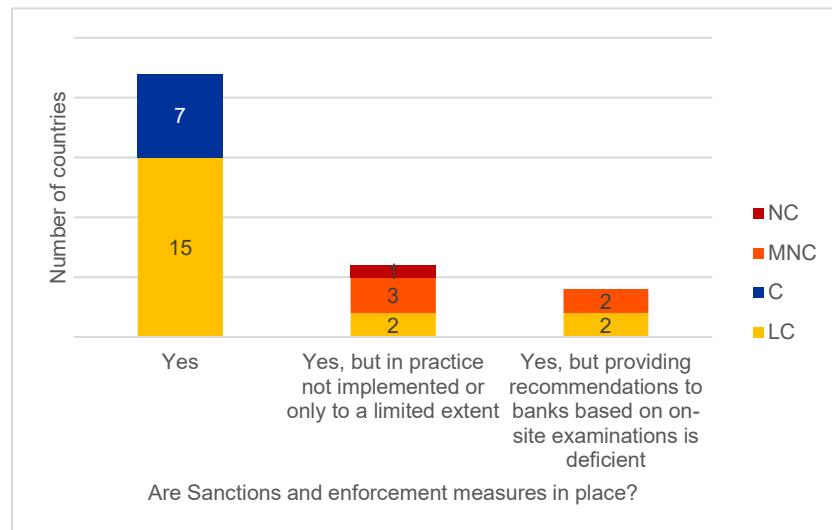


Note: NC = Non-compliant; MNC = Materially non-compliant; LC = Largely compliant; C = Compliant.

Figure 15

Number of assessed countries based on their implementation of sanction and enforcement measures, as well as their compliance with BCP 11

More than a quarter of the supervisory authorities assessed show some weaknesses in their implementation of sanction and enforcement measures



3.7 Cross-border on-site examinations and home-host relationship

Supervisors should focus on banking groups as a whole, rather than on individual domestic legal entities, applying prudential standards to all business activities conducted by the group globally, in accordance with BCP 12. This means that the home supervisor, which is responsible for overseeing domestic banking groups worldwide, should extend its supervision beyond their own country to include the international and cross-border operations of domestic banks, considering both consolidation and group-related risks. In particular, the home supervisor should conduct periodic visits to foreign offices. The timing and frequency of such visits should be based on the risk profile and systemic significance of these foreign operations (EC 4), and the home supervisor should take the opportunity to meet with host supervisors. Additionally, the home supervisor should have a policy in place to determine the necessity of on-site examinations of a bank's foreign operations or the requirement for additional reporting and must have the authority and resources to implement these measures as needed.

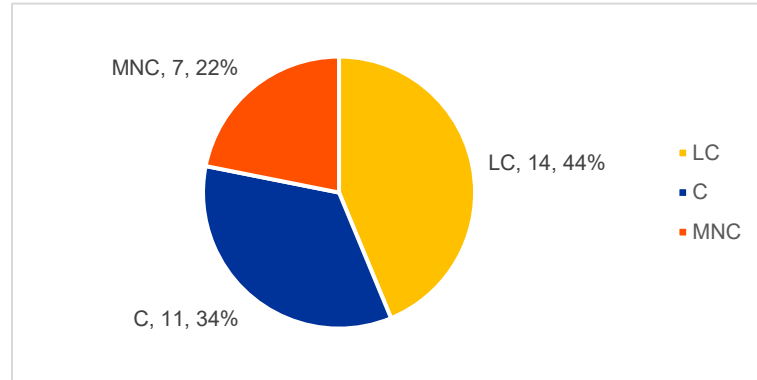
This also implies that both home and host supervisors of cross-border banking groups should foster collaboration and information sharing to ensure effective and transparent oversight of such international banking groups (BCP 13). The principle also insists that home and host supervisors coordinate and plan their supervisory activities or engage in joint efforts if they identify shared interests, thereby enhancing the efficiency and effectiveness of cross-border banking supervision (EC 3). Host supervisors should establish national laws or regulations mandating that the cross-border operations of foreign banks adhere to prudential, inspection and regulatory reporting standards similar to those for domestic banks (EC 7). Specifically, the home supervisor should be granted on-site access to the local branches and subsidiaries of a banking group, while consistently notifying the host supervisor of any planned visits to local branches and subsidiaries (EC 8).

Within our sample of 32 supervisory authorities, the majority of them are either LC or fully C with both BCP 12 (25, or 78%) and BCP 13 (30, or 84%) (see Figure 16 and Figure 17).

Figure 16

Overview of the compliance status of the 32 sampled countries with BCP 12: “Consolidated supervision”

A majority of supervisory authorities are either largely compliant or fully compliant with BCP 12

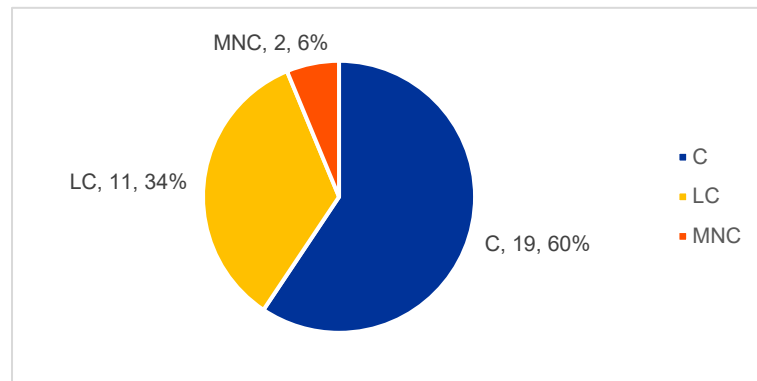


Note: MNC = Materially non-compliant; LC = Largely compliant; C = Compliant.

Figure 17

Overview of the compliance status of the 32 sampled countries with BCP 13: “Homes-host relationships”

A majority of supervisory authorities are compliant with BCP 13



Note: MNC = Materially non-compliant; LC = Largely compliant; C = Compliant.

In our analysis, we delved deeper into the examination criteria of these two BCPs. We first investigated whether the supervisory authorities in our sample conduct cross-border on-site examinations to review foreign offices and locations.

We found that half of supervisory authorities (16, or 50%) perform regular on-site examinations of foreign branches or subsidiaries of domestic banks. The supervisory authorities decide the frequency and scope of these on-site reviews based on the risk profile and systemic importance of the foreign operations, usually assessing these factors during the annual planning of their supervisory strategy. They also

consult with the relevant overseas host regulators during their visits or meetings (see Figure 18).

However, a significant number of supervisory authorities (9, or 28%) are permitted to conduct cross-border on-site examinations, but either do not do so in practice or do so only to a very limited extent. In particular, in five cases, the absence or lack of cross-border on-site examinations was attributable to the limited extent of foreign activities or because the domestic banks had no cross-border presence at the time the FSAP assessment was carried out. In another two cases, the reason cited was a scarcity of resources, making it harder for the authorities to conduct these examinations more frequently or to take part in joint cross-border on-site examinations alongside the host supervisor.

Meanwhile, a further seven authorities (22%) conduct no cross-border on-site examinations whatsoever. In two cases, the lack of cross-border on-site examinations is justified by the supervisory authority's role as solely a host supervisor, with all domestic banks being subsidiaries of foreign banks and with a framework for cross-border supervision not yet established. In another instance, the supervisory authority does not perform on-site examinations but instead takes part in meetings with foreign supervisors. In the remaining four cases, the framework for supervising consolidated entities is either absent or under development. For instance, one supervisory authority has no policy determining whether it needs to conduct on-site examinations of a bank's foreign operations.

Regarding the coordination of supervisory activities and collaboration among home and host supervisors, half of the supervisory authorities (16, or 50%) actively coordinate and plan their supervisory activities for cross-border banking groups (see Figure 19). These authorities regularly exchange information with other foreign home and host regulators and engage in discussions with key host supervisors to pinpoint areas of focus for on-site bank reviews. Additionally, they may conduct joint on-site reviews with other foreign supervisors with the shared goal of enhancing effectiveness and efficiency.

However, there are 12 supervisory authorities (37.5%) that do share information and collaborate with other host or home supervisors but have not yet engaged in any joint on-site examinations of cross-border banks with other supervisors, mainly due to a lack of necessity or opportunity. For instance, one supervisory authority mentioned that, although host supervisors had occasionally requested joint inspections, it had not found it necessary to coordinate and plan such activities. Similarly, another supervisory authority maintains regular contact with supervisors in other countries where its domestic banks have significant operations, although there has been little need so far for collaborative work on supervisory issues such as on-site work.

In another two other cases, the supervisory authorities concerned have not yet established any collaborative supervision due to the absence of any memorandum of understanding (MoU) with other supervisors. In one instance, the supervisory authority acts as host supervisor but has not signed an MoU with any of the home supervisors of the four subsidiaries. In the other case, the supervisory authority has

signed an MoU and established an information-sharing arrangement with just one out of the possible 24 relevant home and host jurisdictions. However, even in this single case of collaboration, the BCP assessors found that there is no systematic, ongoing and proactive exchange of information between the supervisors regarding the material risks and risk management practices of the bank and the banking group.

Regarding the treatment of foreign operations of international banking groups in host countries, in line with BCP 13.7, all countries except for two confirmed that these operations are supervised by the host supervisor in the same manner as domestic banks so as to ensure no preferential treatment. Of the two exceptions, one supervisory authority has had limited contact with foreign regulators, has not engaged in cross-border supervisory work up to the date of the assessment, and has not specified how it treats foreign bank operations within its country. In the other case, differences exist between the prudential, regulatory and supervisory frameworks for domestic banks and foreign bank branches operating in the country, due to inherent differences in their business models, regulatory requirements, and the level of materiality when compared with the domestic banking system. Consequently, these subsidiaries are subject to a different set of prudential, inspection and regulatory reporting requirements compared with other domestic banks.

Lastly, and looking at the home supervisor's ability to conduct on-site examinations at local offices in host countries of foreign activities, the majority of supervisory authorities (18, or 56%) do permit access for home supervisors (see Figure 20), with this being equally balanced between AEs and EMDEs. In these cases, there was no evidence of supervisory authorities obstructing or restricting home supervisors from conducting on-site examinations of foreign banking operations or accessing a branch or subsidiary of a foreign bank in their country. Typically, as outlined in the MoUs, the only requirement is for foreign supervisors to provide advance notice to the relevant host supervisors before conducting an on-site examination. In one particular instance, while foreign supervisors faced no obstacles in accessing the operations of banks under supervision in the host country, access to customer accounts by home supervisors during examinations was restricted over confidentiality concerns.

However, the remaining 13 authorities (41%) need to improve in ensuring such access to local offices within their countries. For five of these supervisory authorities (all in EMDEs), there is no evidence of home supervisors conducting on-site examinations of international banking groups in their countries. Even where their framework permits it, there are no past examples of such examinations taking place, and it remains unclear how and under what conditions home supervisors could perform on-site inspections. Among the remaining eight supervisory authorities that allow on-site examinations of foreign branches to take place within their territory, such examinations have not been carried out in practice, either due to the minimal or non-existent presence of foreign banks or because of certain imposed limitations. For instance, in three countries, on-site examinations are allowed only if the host supervisor also takes part. In another instance, while there are explicit legal provisions allowing home supervisors to conduct on-site inspections, no such provisions exist for inspections by home supervisors of subsidiaries from the same

banking groups or from third countries. In two other cases, on-site examinations can proceed only with the host supervisor’s approval: if an MoU exists, the request for on-site inspection is evaluated according to its provisions. Without an MoU, the on-site visit request must be submitted to the host supervisor for approval, and while no rejections have reportedly occurred, they cannot be ruled out. Lastly, in one case, the home supervisor must obtain written consent from the foreign entity before conducting any on-site inspection in a foreign country.

Figure 18

Number of countries evaluated based on their role as the home supervisor in conducting cross-border OSIs for their domestic groups (BCP12.4)

Half of the sampled supervisory authorities either do not conduct cross-border OSIs as home supervisors, or are permitted to do so but either do not implement them in practice or do so only to a limited extent

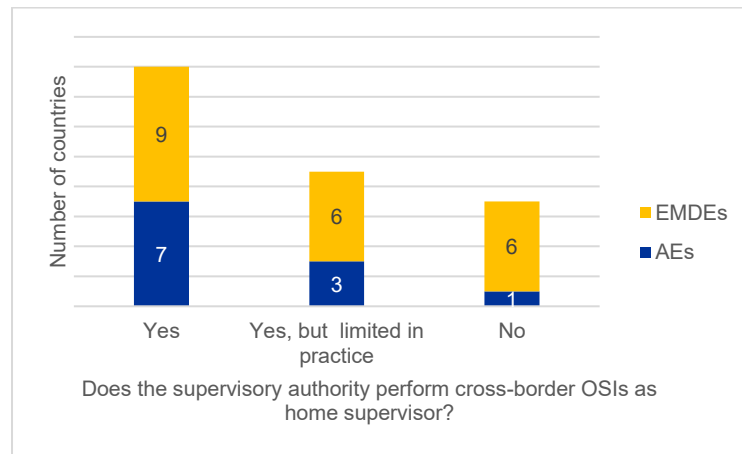


Figure 19

Number of countries assessed on their coordination and planning of supervisory activities as either home or host supervisors, including collaborative efforts such as joint OSIs (BCP 13.3)

A significant portion of the sampled countries (41%) has not yet conducted joint OSIs with either home or host supervisors

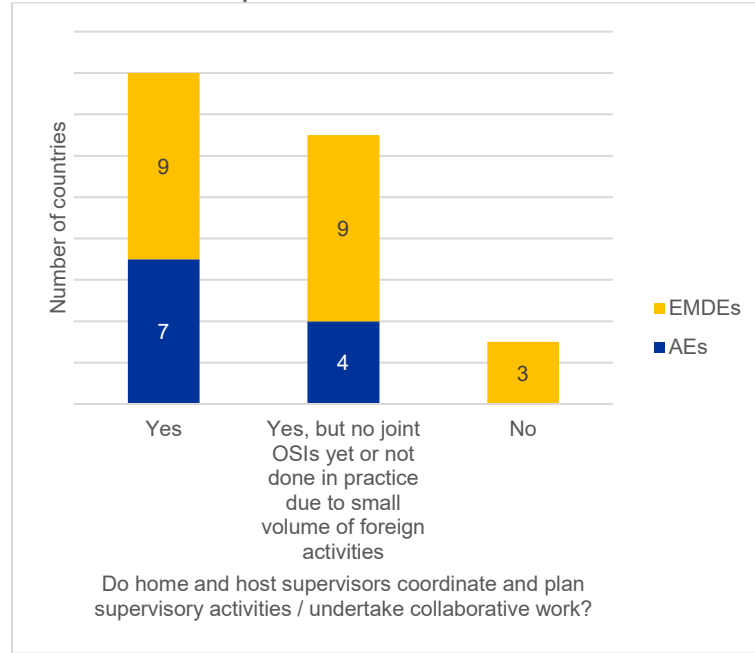
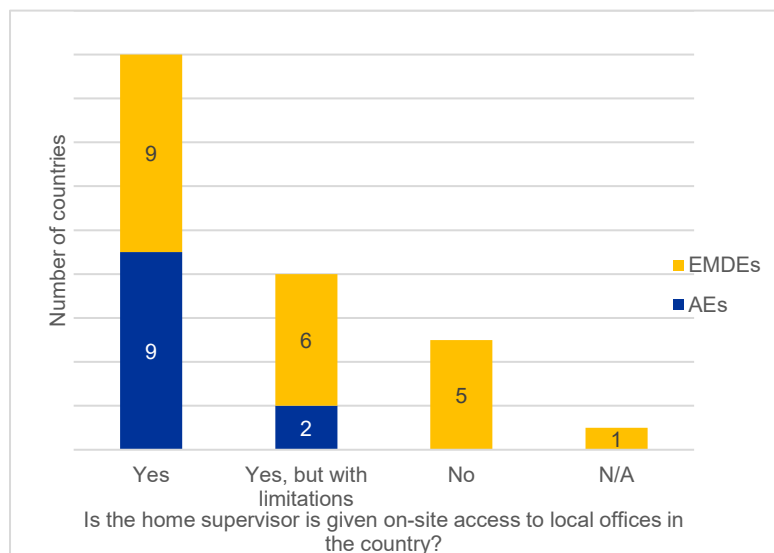


Figure 20

Number of countries evaluated on whether they allow home supervisors access to local offices within their territory (BCP 13.8)

A significant portion of the countries sampled (41%) needs to improve in ensuring on-site access to local offices within their countries



3.8 On-site examinations on AML topics

Our final analysis focuses on BCP 29: Abuse of Financial Services, which seeks to ensure that supervisors, through their off-site and on-site activities, verify that banks have appropriate policies and processes in place for customer due diligence (CDD) rules to support high ethical and professional standards in the financial sector and prevent the bank from being exploited, whether intentionally or unintentionally, for criminal activities. If any suspicious activity is identified, it must be reported to the financial intelligence unit or the competent authority.

In this context, we observed that the majority of supervisory authorities in our sample (24, or 75%) are largely compliant with the principle, while only a small proportion (4, or 13%) are fully compliant (see Figure 21), indicating that there is still room for improvement in this area of supervision.

If we scrutinise the BCP assessors' evaluations, half of the supervisory authorities (17, or 53%) need to improve their approach to AML topics during on-site examinations. In one instance, on-site examinations are not conducted at all;

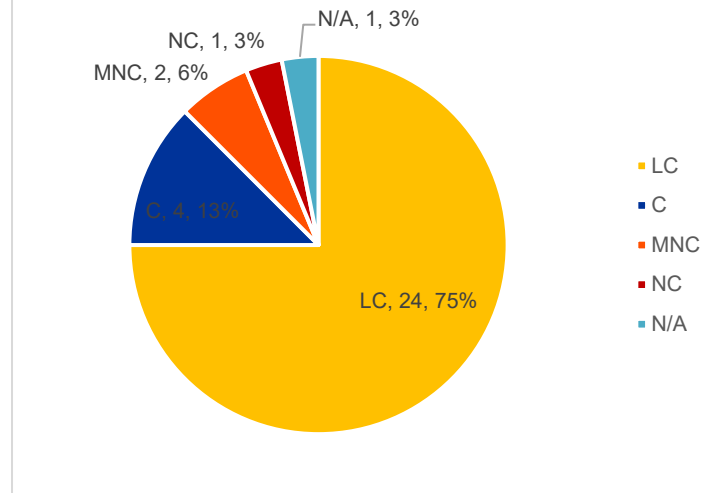
instead, AML supervisory activities are carried out using a risk-focused strategy that relies heavily on the collection and analysis of data reported by firms. In two other cases, although the supervisory authorities do conduct on-site AML examinations, the banks were not explicitly required to report suspicious activities and fraud incidents to the supervisory authority at the time of the BCP assessment, possibly masking certain events that might otherwise have prompted an on-site examination. In three further instances, the assessors identified inadequate coverage of banks through AML on-site examinations, particularly among smaller banks or those perceived to carry less risk. In these cases, banks deemed less risky are monitored through a "remote monitoring" approach, which does not allow the supervisory authority to verify process implementation or the adequacy of systems and the control environment. Otherwise, the supervisory authority relies on complaints, whistleblowers, media reports or thematic reviews, which do not provide reliable data to ensure the adequacy of processes in practice.

For the remaining 11 supervisory authorities, improvements are needed in areas such as adequate staffing for AML on-site examinations, extending the duration of missions, or refining the scope definition of on-site activities. For instance, one authority carries out a broad range of activities beyond AML that do not align with its current staffing, resulting in inspection reports that address the entire spectrum of activities, including those unrelated to AML. In another instance, the AML unit comprises three staff members, two of whom have just graduated from university and have virtually no experience in this field. In yet another case, the duration of AML-CFT topical missions is particularly short, with an average on-site presence of just five and a half days, potentially limiting the depth of certain investigations. Additionally, one of the two supervisory authorities responsible for AML tasks in a particular country lacks a well-developed risk-based methodology to identify higher-risk banks for enhanced supervision relying on the selection of banks for on-site examination made by the other supervisory authority as part of their supervisory cycle. Furthermore, in some cases, the number of targeted and scheduled AML inspections is low compared to non-AML full-scope inspections and general inspections that include AML.

Figure 21

Overview of the compliance status of the 32 sampled countries with BCP 29: “Abuse of financial services”

A majority of supervisory authorities are largely compliant with BCP 29

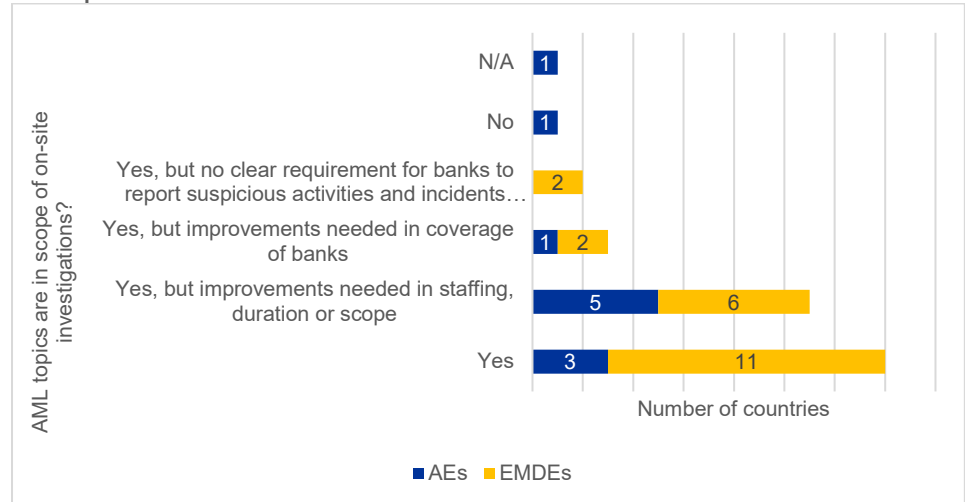


Note: NC = Non-compliant; MNC = Materially non-compliant; LC = Largely compliant; C = Compliant; N/A = Not available.

Figure 22

Number of countries evaluated on their inclusion of AML topics in on-site examinations (BCP 29)

For half of the supervisory authorities, improvements are needed in the way they address AML topics in on-site examinations



4 Conclusion

Banking supervision plays a critical role in maintaining the safety and soundness of banks and preventing risks that could lead to financial instability. It encompasses oversight by regulatory authorities, including the monitoring of bank operations, ensuring their compliance with regulations, and assessing their financial and managerial practices.

However, banking crises persist, despite substantial investments in central banking infrastructure, supervisory frameworks and resources, and oversight efforts. This highlights the ever-evolving and complex nature of risks within the global financial system and underscores the need for supervision and for supervisors to remain adaptable, up to date, and responsive to the changing financial landscape.

Three reports⁶⁶, prepared by the respective supervisory authorities in the wake of each bank's failure, have been published with the aim of identifying the root causes of the crises and highlighting areas for improvement in banking supervision. Interestingly, all three reports consistently highlight deficiencies in risk management practices, the inability of board members to effectively identify risks and establish appropriate bank strategies, and the lack of timeliness or enforcement authority among supervisors in addressing vulnerabilities and rectifying examination shortcomings.

In conclusion, despite robust regulatory frameworks and significant oversight efforts, the recent failures of Silicon Valley Bank, Signature Bank and Credit Suisse offer critical lessons for the future of banking supervision. Common themes across all three cases include inadequate board-level oversight, flawed risk cultures, and insufficiently proactive or forceful supervisory interventions. These shortcomings were further exacerbated by resource constraints, regulatory tailoring, and limited enforcement tools available to supervisors.

As the global financial system continues to evolve, so too must the approaches to supervision. Improvements to supervisory frameworks, such as those recommended by the IMF and WB in FSAP documents and emphasised in our analysis, are essential to empower regulators with the tools and authority needed to address modern banking challenges.

Our analysis reveals, among other things, that, in terms of a general overview of on-site examination structures, half of them do not have a dedicated and independent on-site inspection team or department and only a small handful have an organisational structure with independent teams devoted to on-site examinations.

Further efforts should be made to achieve a better balance between off-site and on-site supervisory activities, ensuring the timeliness and enforceability of supervisory

⁶⁶ Federal Reserve System (April 2023), "[Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank](#)"; Federal Deposit Insurance Corporation (April 2023), "[FDIC's Supervision of Signature Bank](#)"; Swiss Financial Market Supervisory Authority (FINMA) (December 2023), "[Lessons Learned from the CS Crisis](#)"

findings, allocating sufficient resources to supervisory functions, and fostering more frequent collaboration and knowledge-sharing among supervisory authorities. Ultimately, it is important to acknowledge that no supervisory framework can ever guarantee complete immunity from financial institution failures. However, these banking crises serve as a stark reminder that effective supervision is not static but must remain dynamic and forward-looking to safeguard financial stability in an increasingly interconnected and rapidly changing world.

5 Annexes

5.1 Annex 1: Sampled countries used for this assessment

FSAP year	BCPs version	Country	Comment
2014	2012	AUSTRIA	Excluded because it has been part of the SSM since 2014
2014	2012	CANADA	
2014	2012	HONG KONG	
2014	2012	REPUBLIC OF KOREA	
2015	2012	BULGARIA	
2015	2012	GEORGIA	
2015	2012	SOUTH AFRICA	
2015	2012	UNITED STATES	
2016	2012	GERMANY	Excluded because it has been part of the SSM since 2014
2016	2012	REPUBLIC OF MOLDOVA	
2016	2012	RUSSIA	
2016	2012	UNITED KINGDOM	
2017	2012	JAPAN	
2017	2012	NEW ZEALAND	
2017	2012	PEOPLE'S REPUBLIC OF CHINA	
2017	2012	TÜRKIYE	
2018	2012	BRAZIL	
2018	2012	EURO AREA POLICIES	
2018	2012	INDIA	
2018	2012	PERU	
2018	2012	ROMANIA	
2019	2012	AUSTRALIA	
2019	2012	BAHAMAS	
2019	2012	THAILAND	
2020	2012	PHILIPPINES	
2022	2012	COLOMBIA	
2022	2012	WEST AFRICAN ECONOMIC AND MONETARY UNION	
2023	2012	BOTSWANA	
2023	2012	ICELAND	
2023	2012	MEXICO	
2023	2012	SWEDEN	
2024	2012	SAUDI ARABIA	
2024	2012	INDONESIA	
2024	2012	KAZAKHSTAN	

5.2 Annex 2: Overview of different versions of Basel Core Principles (BCPs) for effective bank supervision

2012 structure	2006 structure	1997 structure
CP 1: Responsibilities, objectives and powers		
CP 2: Independence, accountability, resourcing and legal protection for supervisors	CP 1: Objectives, independence, powers, transparency and cooperation	CP 1: Preconditions for effective banking supervision
CP 3: Cooperation and collaboration		
CP 4: Permissible activities	CP 2: Permissible activities	CP 2: Licensing and structure – Permissible activities
CP 5: Licensing criteria	CP 3: Licensing criteria	CP 3: Licensing and structure – Licensing criteria
CP 6: Transfer of significant ownership	CP 4: Transfer of significant ownership	CP 4: Licensing and Structure – Transfer of significant ownership
CP 7: Major acquisitions	CP 5: Major acquisitions	CP 5: Licensing and Structure – Major acquisitions
CP 8: Supervisory approach	CP 19: Supervisory approach	
CP 9: Supervisory techniques and tools	CP 20: Supervisory techniques	CP 16: Methods of ongoing banking supervision – Supervisory techniques
		CP 17: Methods of ongoing banking

		supervision – Contact with bank management
CP 10: Supervisory reporting	CP 21: Supervisory reporting	CP 18: Methods of ongoing banking supervision – Supervisory reporting
		CP 19: Methods of ongoing banking supervision – Independent validation
CP 11: Corrective and sanctioning powers of supervisors	CP 23: Corrective and remedial powers of supervisors	CP 22: Formal powers of supervisors
CP 12: Consolidated supervision	CP 24: Consolidated supervision	CP 20: Methods of ongoing banking supervision – Consolidated supervision
CP 13: Home-host relationships	CP 25: Home-host relationships	CP 23: Cross-border Banking
		CP 24: Cross-border banking
		CP 25: Cross-border banking
CP 14: Corporate governance		
CP 15: Risk management process	CP 7: Risk management process	CP 13: Prudential regulations and requirements – Risk management process
CP 16: Capital adequacy	CP 6: Capital adequacy	CP 6: Prudential regulations and

		requirements – Capital adequacy
CP 17: Credit risk	CP 8: Credit risk	CP 7: Prudential regulations and requirements – Credit risk
CP 18: Problem assets, provisions and reserves	CP 9: Problem assets, provisions and reserves	CP 8: Prudential regulations and requirements – Quality of assets
CP 19: Concentration risk and large exposure limits	CP 10: Large exposure limits	CP 9: Prudential regulations and requirements – Large exposure limits
CP 20: Transactions with related parties	CP 11: Exposures to related parties	CP 10: Prudential regulations and requirements – Exposures to related parties
CP 21: Country and transfer risks	CP 12: Country and transfer risks	CP 11: Prudential regulations and requirements – Country and transfer risks
CP 22: Market risk	CP 13: Market risk	CP 12: Prudential regulations and requirements – Market risk
CP 23: Interest rate risk in the banking book	CP 16: Interest rate risk in the banking book	
CP 24: Liquidity risk	CP 14: Liquidity risk	
CP 25: Operational risk	CP 15: Operational risk	

CP 26: Internal control and audit	CP 17: Internal control and audit	CP 14: Prudential regulations and requirements – Internal control and audit
CP 27: Financial reporting and external audit	CP 22: Accounting and disclosure	CP 21: Information requirements
CP 28: Disclosure and transparency		
CP 29: Abuse of financial services	CP 18: Abuse of financial services	CP 15: Prudential regulations and requirements – Abuse of financial services

Acknowledgements

Alessandro Santoni

European Central Bank, Frankfurt am Main, Germany; email: alessandro.santoni@ecb.europa.eu

Valentina Rapalino

European Central Bank, Frankfurt am Main, Germany; email: valentina.rapalino@ecb.europa.eu

Roberta Nesti

European Central Bank, Frankfurt am Main, Germany; email: roberta.nesti@ecb.europa.eu

© European Central Bank, 2025

Postal address 60640 Frankfurt am Main, Germany

Telephone +49 69 1344 0

Website www.ecb.europa.eu

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