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**THE PHILIPPINES TRAINING PROGRAM  
FOR BANKING SUPERVISION  
TRAINING NEEDS ASSESSMENT  
FINAL**

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*Submitted to:*  
**Supervision and Examination Sector  
Bangko Sentral ng Pilipinas  
Manila, Philippines**

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## **QUALIFICATION OF FINDINGS**

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## **EXECUTIVE SUMMARY**

BearingPoint LP, under a contract with FIRST Initiative, has developed a training needs assessment to enhance the existing training program for bank examiners in risk-based supervision at Bangko Sentral ng Pilipinas (BSP), and is developing a series of five courses in risk-based supervision for delivery to BSP examiners. The need for the assessment was identified in connection with BSP's transition to risk-based supervision. There is recognition that existing training opportunities in-house do not provide adequate training to the entire examination staff in all facets of risk-based supervision. BearingPoint advisors held a series of meetings and interviews with BSP/SES staff and other interested non-BSP stakeholders, and utilized BSP documents, such as examination manuals and banking circulars, as a resource in developing the training needs assessment.

BSP's training program consists principally of a basic two-week in-house course addressing all facets of risk-based supervision, but it has no depth because of the short time frame in which it is delivered. Not all examiners attend this training. Additional training beyond this two-week course is ad-hoc in nature. Consequently, there are gaps in training delivered to the examination staff that result in uneven skill and competency levels among SES examination staff relative to risk-based examinations, resulting in a continued reliance on compliance-based examination techniques. Examiners produce varying interpretations of banking risk because of insufficient training in risk-based examination techniques. These outcomes reportedly are reflected in examination reports, which are said to lack analytical content and justification for conclusions reached, and focus on trivial matters.

To address these issues, BearingPoint advisors recommend that BSP adopt a formalized, structured multi-level training program. The training program would consist of two levels: (a) a series of core courses addressing basic banking supervision and all facets of risk-based supervision; and, (b) a series of intermediate and specialty courses available to examiners who have demonstrated a mastery of the subject matter in the core curriculum. Courses at both levels would generally have a requirement for classroom training in combination with on-the-job training. Most classroom training would have a testing component at the conclusion of the classroom training. There would be a comprehensive examination given upon completion of the core course curriculum, which must be passed for eligibility for promotion and to serve as an Examiner-in-Charge.

Second level courses would be available to examiners to meet career development goals, needs, and interests. Second level courses would comprise a supermarket of training opportunities from which examiners may choose to meet training requirements at their level. An Individual Development Plan would be created for each examiner, indicating the courses to be taken to meet individual needs and interests. A set number of classes would be required at each examiner (Bank Officer) level, which would replace the present requirement of a set number of hours. The number-of-hours requirement is low and does not provide adequate opportunities for training the examination staff.

BearingPoint advisors believe the BSP Institute is best positioned to manage the examiner training and development program. In this regard, the Institute should develop a written examiner training and development policy. As part of the management of the training of newly hired examiners, these individuals should be rotated among the four SEDs as part of their on-the-job training, even though they may be assigned to a specific SED upon their appointment. The examiner profile over time should have a broad-based background. To achieve this goal, SES should consider hiring individuals with sound academic performance in finance, business or economics, and with the CFA designation. This would provide BSP with greater depth and a more diverse talent base, and will bring greater risk-based analytical skills to the job.

This training program can continue to be supplemented by outside training. However, the presumption should be that individuals selected for such training are designated in-house trainers. The trainers would have the responsibility to update existing courses with the skills or knowledge they are exposed to, or develop a new

course in the event the course does not exist at BSP. A memorandum or synopsis of the course should be distributed to all examiners with a “need to know.”

BearingPoint advisors are delivering training in financial analysis, credit risk, liquidity and market risk, operations risk, and evaluating and holding meetings with management. These courses constitute the bulk of the core curriculum in the examiner training program. While conceptual material will be taught, the focus of the training will be to inculcate a risk-based approach to thinking about the examination process in each of these areas, and how to utilize risk-based examination techniques based on this thought process. There will be three class cycles. During the first cycle, BearingPoint advisors will teach examiners who have been identified as in-house trainers. In the second cycle, training responsibilities will be divided between the advisors and the prospective trainers; students will be mainly senior examiners who have shown an interest and some aptitude for risk-based supervision. This class will be less conceptual in nature. The third cycle will be delivered solely by in-house trainers, although the advisors will be present to mentor them; participants will principally be junior examination staff. There will be a greater balance between conceptual issues and their practical application, recognizing a lower level of experience and knowledge in this group. BearingPoint advisors believe that ultimately all examiners in SES should attend the five courses to ensure that everyone has benefited from the same training.

## **Scope of Assessment**

Under a contract with FIRST Initiative, BearingPoint LP (BearingPoint) was assigned the responsibility of conducting a training needs assessment for staff of the Supervision Examination Sector (SES) at BSP. In connection with assessing BSP’s training needs, BearingPoint provided recommendations for improving and enhancing BSP’s existing training program for SES examination staff.

In assessing BSP’s training needs, BearingPoint advisors held a series of meetings and interviews with BSP/SES staff and other interested non-BSP stakeholders. We held meetings with Deputy Governor Reyes, Assistant Governor Espenilla, Managing Directors Yuvienco and Lirio, SED directors, and examination staff from SED I and II. We also met with representatives from BSP’s Human Resources Management Division and the BSP Training Institute, the Bankers Association of the Philippines, the Chamber of Thrifts, the Association of Compliance Officers, the Philippines Deposit Insurance Corporation, and the SEC.

In addition, in collaboration with SES management, BearingPoint consultants distributed a training needs questionnaire to 70 SES staff and tabulated the results. A discussion of the results is contained in Appendix C.

As background sources for assessing current training and future training needs, we used SES examination manuals and circulars to assess the risk-based supervision orientation of the materials and their incorporation into existing training.

## **Discussion of Risk-based Supervision**

Risk-based supervision is a subjective term open to differing interpretations even among regulators. To avoid possible misunderstanding of the use of this term, we are providing a benchmark definition under which the recommended training program will be delivered.

Risk-based supervision is best described as an evolution in supervisory practices, not a revolution. In that sense, it can best be characterized as a blending of past philosophy – assessment of compliance and the historical record, and a newer structure that is more forward looking and anticipatory. Risk-based supervision requires both bankers and examiners to consider the relationships among markets and products, and identify and

evaluate risks across all product lines and activities. It blends past supervisory practice with new procedures so that supervisors can keep pace with a rapidly changing market.

Risk-based supervision places a greater emphasis on planning and scoping so as to customize examinations to suit the size and activities of a bank and to concentrate examiner resources on areas that expose a bank to the greatest degree of risk. Resources are directed principally to assessing a bank's management processes and the bank's ability to manage the risks in its activities and business lines. As a result, the supervisor devotes examination and supervisory resources to areas of greater risk, identified weaknesses or other material supervisory issues. Transaction testing is adjusted downwards depending upon the supervisor's comfort level for management practices and materiality. Transaction testing still is performed to verify:

- adherence to policies, practices and procedures;
- accuracy and completeness of management reports; and
- adequacy and reliability of internal control systems.

However, the transaction testing is no longer an end in itself or the focus of the examination. It is a means to an end – assessing the ability to manage risk.

Under risk-based supervision, the supervisory process involves four key phases:

- identifying risk using common definitions;
- measuring and evaluating risk using common evaluation factors;
- developing a supervisory strategy based on the measurement and evaluation of risk; and
- documenting conclusions and communicating findings to bank management and the bank's Board of Directors.

Identification of risk relates to the placement of risk in an institution's activities in one of several concisely defined areas, such as credit, market or liquidity risk. Such placement is complicated by the fact that most bank products have multiple risks, and the risks may be interrelated. Thus the evaluation of risk must occur across all product and activity lines. Measurement of risk is accomplished through the utilization of the Risk Assessment System, which gauges the quantity of risk, the quality of risk management and whether the risk is static. The supervisory strategy is the end result of risk-based supervision. It incorporates the supervisor's understanding of the institution (Institutional Overview), the planning and defining of supervisory activities using such tools as a supervisory plan and scope memoranda. The strategy defines the examination plan and other supervisory initiatives in the event the institution is subject to greater than normal supervisory scrutiny.

## **Existing Status of Examiner Training**

Based on the results of the interviews, meetings and questionnaires, we reached the following conclusions about the current state of (1) training and (2) the transition to full risk-based supervision within SES.

There appears to be no structured training program for SES examination staff, least of all for new SES examination staff. A two-week introductory course is generally delivered in-house to new examination staff, but there is no uniform, phased training delivery beyond the initial course. While the introductory course contains much valuable material, including a discussion of the risk-based approach to supervision, there is no standard program for further, in-house instruction (1) to develop greater specific knowledge, skills and competencies and (2) to reinforce the risk-based approach to supervision, in general, among newer staff as they advance their careers. Existing training in risk-based supervision also is conceptual in nature, and is lacking in providing instruction in executing risk-based examination techniques. Furthermore, there is no program of cross-training among the four SED examination groupings. Once an examiner is placed in a particular examination division, there is a strong tendency for that examiner to remain there until departure from SES or retirement.

Examiners receive both in-house and off-site training on a variety of often valuable topics, as determined by SES senior management, and they hold “echo” seminars or meetings with colleagues to disseminate the information gathered at overseas training, in particular. However, these “echo” seminars or meetings do not include all SES staff that might benefit from them and, consequently, the results of the training do not appear to be communicated as widely or as effectively as they should be.

There are uneven skill and competency levels among SES examination staff, as well as differing interpretations of BSP circulars. This was a consistent message heard across all our meetings outside BSP. These differences are at least partially due to the lack of a standardized, structured training program for all SES examination staff. The result of the absence of a standardized, structured training program is not only uneven skill levels but also gaps in knowledge among SES examination staff.

The results of our meetings suggest strongly that the quality, thoroughness and emphasis on risk-based supervision of on-the-job training for junior SES examination staff is uneven. Reportedly, on-the-job training consists frequently of simply reading manuals and lacks consistent coaching and mentoring. This is likely one of the reasons why the transition to risk-based supervision has proceeded slowly.

Based on our discussions, it appears that the SES attendees at off-site specialized training, in particular, are not always the most appropriate to attend such training. It appears that training participants are often chosen on the basis of seniority, rather than specialty or training need.

The transition to risk-based supervision remains incomplete. Insofar as examiners have a theoretical or conceptual understanding of risk-based supervision, progress has been made. The application of the risk-based examination approach is lacking, however, primarily because of the absence of a standardized, structured training program that emphasizes both the theory of risk-based supervision and the practical application of risk-based examination techniques on the job. A successful transition to the risk-based examination approach requires consistent training, both formal and informal, to disseminate and reinforce these examination techniques among all SES staff. The transition should be a cooperative, joint effort among all SES staff, as all are learning a new approach to supervising banks.

There appears to be little on the job training in the application of risk-based examination techniques to reinforce the initial theoretical introduction of the process, largely because the SES managers and senior examiners/examiners in charge themselves have benefited from little such training in the application of risk-based examination techniques. They find it difficult to coach the techniques in which they themselves have not been trained fully.

Industry groups with whom we met suggested strongly that bank examination reports remain largely focused on compliance and adherence to existing policies and procedures. As a result, SES examination staff devote much less attention to how well a bank manages its risk overall and whether the risk management system is adequate for the risk the bank incurs in its business activities. Consequently, examination reports do not provide as much value to bank management as they could. There is a tendency to repeat information in examination reports of which management already is aware, and a tendency to “bury” comments of value or criticisms in a mountain of data. Based on the comments we received, it would seem that examination reports are not as analytical as they should be and reflect largely a compliance-based approach.

Our understanding, based on discussions with these industry groups, is that SES examination reports reflect a scattered, non-focused approach that includes all types of information, regardless of whether it is material or relevant to the principal risk issues amplified and discussed in the report. This approach results in examination reports that often contain conclusions that either are not supported by the actual findings discussed in the reports, or are not vetted and analyzed fully. Our impression is that the ability to produce concise examination

reports that reflect appropriately substantiated conclusions has not been fully developed among SES examination staff.

During the current, ongoing transition to risk-based examination techniques, examiners have become burdened with an ever increasing workload, rather than the flexibility of reducing the utilization of resources in areas of lower risk. This is because risk-based examination techniques, to the extent they are employed, have become an overlay on top of examination techniques employed under compliance-based examinations rather than a substitute for them. One major constraint, however, is the legal requirement for examiner review of 80% of a bank's loan portfolio. This constraint reduces the flexibility of examiners in planning and executing bank examinations with respect to the assessment of credit risk management.

The requirement for all entry-level examination staff to be a CPA, in fact, tends to emphasize the focus on transactions and compliance among examination staff, rather than promote a broader, risk-based approach to bank examinations. A broader, more analytical approach is required for risk-based supervision.

To reiterate, the results of the current state of training for SES examination staff can be summarized as follows:

- Gaps in training that result in uneven skill levels and competencies among SES examination staff relative to risk-based examinations resulting in a reliance on compliance-based techniques. For example, a testing of compliance with policies is viewed as risk-based in nature when it actually is compliance-based.
- Examiners produce varying interpretations of banking risk and business lines because of insufficient training in risk-based examination techniques. This phenomenon transcends an understanding of the management of risk, as it also results in uneven interpretations of banking circulars and even banking law.
- Reportedly, the ability to produce concise examination reports that reflect appropriately substantiated conclusions is lacking. Examination reports lack analytical content and frequently concentrate on trivial matters.

## **Recommendations to Enhance Examiner Training**

BSP is committed to developing and maintaining a qualified staff of professional examiners fully trained in risk-based supervision. Toward that end, we recommend that BSP adopt a formalized, structured multi-level training program. A training program of this nature would serve as the linchpin for enhancing the skills of the examination staff by ensuring that each examiner has sufficient training in the basic elements of risk-based supervision. Such a training program would combine classroom training with on-the-job reinforcement, and could be supplemented further by self-study, on-line courses, or other forms of training suited for individual examiners.

Formal technical training for examiners should be embodied principally in a core training program consisting of seven courses required of all newly hired examiners, and all examiners whose tenure with BSP is less than two years. A listing of the core courses and a description of course content is contained in Appendix A. Each participant should be required to pass an examination at the conclusion of each of the core courses to demonstrate an understanding of basic concepts introduced in the course. This classroom training should be supplemented by a disciplined on-the-job training regimen in which examination activities conducted and performance thereon would be recorded. Performance in the classroom training and on-the-job will be used by BSP management and the BSP Institute (the Training Institute) to determine further steps for development, and also to determine the incumbent's readiness to take a "commissioning" examination. The "commissioning" examination would cover all seven courses in the core curriculum. A passing grade must be earned on this examination before promotion to Bank Officer I and to gain eligibility to serve as an Examiner-in-Charge.

The core curriculum and on-the-job training phase of the training program should take two years or less to complete, depending upon the frequency of core course offerings and the incumbent's progress on the job. BSP policy states that newly hired examiners must serve a probationary period of at least six months, or up to one year. During that period, the new employee may be dismissed for cause. The results of the incumbent's classroom training and on-the-job performance should provide tangible evidence for BSP management to assess the incumbent during the probationary period.

The success of the examiner training program is highly dependent on the delivery of timely and effective training while on the job. It is thus a critical component of examiner development. On-the-job training is highly significant as a development tool because the experience of practicing the job tasks and functions is the best training for independently performing those tasks. To ensure its success, BSP must identify a core of mid-level and senior examiners who are committed to full implementation of risk-based supervision in BSP and provide them with the needed support to be leaders by example in on-the-job training. As these examiners have not benefited from a comprehensive training program in risk-based supervision, these examiners will be working on-site with a cadre of other examiners in a give-and-take atmosphere as they all learn risk-based examination techniques together.

As noted above, our proposed training program is characterized as multi-level in nature. The implication for individual examiners is that training requirements will continue, even after the commissioning examination has been passed. However, "continuing education" assumes mastery of the subject matter in the core courses, so examiners should be well versed in the core curriculum prior to enrolling in additional training. We recommend a second level of training crafted to meet the needs and interests of examiners once they have passed the commissioning examination. There should be an Individual Development Plan (IDP) for each newly commissioned examiner to ensure their continued development subsequent to the completion of the core training program. A certain number of courses should be required of all examiners once they have reached the level of Bank Officer I, II or III. We recommend replacing the present requirement of a set number of hours devoted for training at each of these levels with a set number of courses, to be supplemented by on-the-job training. The present requirement for training at these levels is insufficient to ensure that examiners have the opportunity to remain current on changes in examination practice, or to gain new skills. Moreover, this new requirement would facilitate the BSP's desire to have specialists in certain disciplines, and would prepare examiners for such diverse roles as that of a Central Point of Contact. We propose the number of courses to be set as follows: Bank Officer I – four courses; Bank Officer II – three courses; Bank Officer III – two courses. The courses each Bank Officer elects, together with steps taken in the on-the-job phase of the training, should be outlined in each individual's IDP. A recommended format for the IDP is contained in Appendix B.

The second level of courses is a supermarket of training opportunities from which examiners may choose to meet training requirements at their level. They consist of a group of intermediate and specialized courses for the SED in which the examiner is placed, or to meet their goal of becoming an examiner in a specialty area, or to become a Central Point of Contact. A recommended listing of these courses, together with a description of several of them, is contained in Appendix A. An outside training opportunity can be substituted for an in-house second level course in the event BSP has not developed the course in-house. Outside training should conform to the training goals described in the examiner's IDP.

**We recommend that the BSP Institute, the Central Bank's in-house training management body, manage this examiner training and development program.** The Training Institute should be responsible for a number of activities in connection with management of the program. These responsibilities would include:

- securing trainers to deliver the courses;
- scheduling classes with sufficient frequency;
- maintaining the relevance of course material by coordinating with the trainers;
- maintaining records of training (both classroom and on-the-job) and performance by individual examiners;

- maintaining the IDP for each examiner and working with SED managers to ensure these training requirements are met;
- ensuring that new hires have completed their required training and taken the commissioning examination within two years of being hired; and
- maintaining test questions for examinations and ensuring the integrity of the examination process by providing different test questions to succeeding generations of prospective commissioned examiners.

The training program should be “codified” and communicated to the entire examination staff. To accomplish this goal, the Training Institute should be charged with the responsibility of creating a written examiner training and development policy, with ultimate approval of the policy resting with senior management of SES.

Current BSP policy requires that each newly hired examiner must be assigned to an SED. While this may be desirable from a management perspective, **we recommend that newly hired examiners be rotated through each SED over the two year “training period” to ensure each of these examiners is exposed to all types of financial institutions under the supervision of BSP.** A rotation will serve to broaden each examiner’s perspective and experience, creating a more valuable and diverse examination staff. It will ensure that examiners assigned ultimately to SED IV have some exposure and gain some knowledge of capital markets, and that examiners assigned to SED I gain some specialty experience in micro-finance lending or agricultural lending. Moreover, the core curriculum requires both classroom and on-the-job training that promotes cross-pollenization of the examination workforce. An added benefit to BSP of a rotation policy is that final determination of the placement of individual examiners in an SED can be based on informed judgments of their performance and interests (if such interests can be accommodated).

An alternative solution would be to assign newly hired examiners to the Training Institute during the “training period.” The Training Institute would manage the rotation of new examiners. Inasmuch as training is their core responsibility, the Institute is in a better position to manage this process, thereby implementing the training program more efficiently, and managing each new examiner’s training more closely.

**We recommend that the training program continue to be supplemented by outside training.** However, the presumption should be that individuals selected for such training are designated in-house trainers. In the event they are not, they must have successfully completed the core curriculum and passed the commissioning test (current Bank Officer I and above excepted). These examiners, regardless of whether they are designated as trainers, should have the responsibility of upgrading existing in-house training courses to reflect new issues or examining techniques that are gleaned from the outside training. Or the trainer may develop a new course based on the outside training in the event there is no in-house course on the subject. The traditional “echo” approach is insufficient for such training, as it becomes watered down for the recipient the farther from the source it is delivered. A memorandum or synopsis of the course material should be prepared in writing and distributed to all examiners with a “need to know.” All outside training material should be held in a training library maintained by the Training Institute, and its contents should be available to all interested examiners.

Existing BSP policy is that prospective new examiners must have a CPA designation. While this has certain advantages, it restricts the pool of eligible candidates, and eliminates talented individuals who have the academic background and skills to succeed as examiners, especially in a risk-based approach to banking supervision. **We recommend that BSP expand its pool of eligibility to include individuals with the designation of CFA, or with academic degrees in economics, finance and business.** These individuals also have the academic training to become examiners and usually are better versed in such areas as capital markets. Their training also is less transaction based and more analytical in nature, a skill required in assessing risk. There is the added benefit of having a more diverse examination staff, well versed in a number of disciplines, providing a depth to the staff that presently does not exist.

## Course Development

Course development, when feasible, will leverage existing course material developed by BSP staff. For example, the two-week introductory course on risk-based supervision has good material on the local banking environment that will be incorporated into the training material. Case studies, to the degree possible, also will be grounded in actual occurrences in the Philippines. We plan to work with SES staff in the four SEDs to identify appropriate real life situations that can serve as the basis for case studies. Managers may be invited to deliver these case studies during Cycle One of the training program.

## Training of Trainers Program

The purpose of the Training the Trainer (TOT) program is to build training capacity within SES that is highly competent in the risk-based supervision approach to bank examination and modern training techniques. Therefore, in collaboration with SES senior management and staff, BearingPoint will develop a core group of trainers capable of delivering training in all five courses that BearingPoint will develop for delivery to SES examination staff.

After a careful selection process, BearingPoint instructors will deliver the first round of five separate training courses to 25-30 SES trainer candidates. Following the first round of training, a group of trainers will be selected from among the 25-30 candidates who participated in the first round of training to participate in a TOT course designed to improve and enhance their training development and delivery skills.

Following the TOT training, the candidates selected will team-teach the second round of training together with BearingPoint instructors. SES senior management will select the training participants for the second round of training from SES staff. SES trainer candidates each will be responsible for delivering training in only one of the five topics, not all five.

Finally, the SES trainers will deliver the third round of training to SES participants by themselves, with coaching and mentoring from the BearingPoint instructors, who will be present during this phase of the training.

In this manner, BearingPoint will train SES trainer candidates selected by management to deliver the new, risk-based training courses designed for SES examination staff. They will form the core group to continue in-house training for SES, once this project is completed.

As noted above, course development is designed to build BSP capacity in delivering training in-house in these courses subsequent to the conclusion of training and mentoring by BearingPoint advisors. To build this capacity, BSP is introducing a process to identify a cadre of in-house trainers selected from the examination staff. Their duties and responsibilities as trainers are in addition to their responsibilities as examiners. Therefore, we recommend they be compensated and recognized in some way for their work in developing, maintaining and delivering classroom training. They should be considered for promotion in the same manner as examiners who do not have training responsibilities; in certain cases, their training responsibilities should be considered as an extra advantage when promotion opportunities are available.

It is likely that some individuals who may be interested in becoming trainers are managers in one of the SEDs at present. Their interest in becoming a trainer carries certain advantages for BSP, as they are able to transfer their technical knowledge and experience to a broader forum in an institutional setting. Their position in the organization, and their commitment to train, lends weight and importance to the training program, sending a message to those who may not be enthusiastic initially. However, combining the duties of a trainer and manager may not be feasible in view of the time commitment required for both jobs. To take advantage of the manager's desire to be a trainer, we recommend that another individual be appointed acting manager for the period that the

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manager serves as a trainer. The advantage to BSP is the management depth it builds in the organization, providing management succession.

Who should take the five courses that we are developing for BSP? In our view, all examiners in SES should participate over time so that all will have the same training and each examiner will have the benefit of being exposed to the course material in a risk-based environment. Of current SES examiners, only those with less than five years experience should be subject to the testing at the conclusion of each course. In a sense, examiners with five years or more of experience are grandfathered from taking the post-course tests. However, all examiners should have an IDP and should be required to take intermediate or specialized courses (once developed).

Notwithstanding the easing of the testing requirement for experienced examiners, all trainers selected for this five-course program, including those with five or more years of experience, should take the test in each course to enable BearingPoint advisors to ascertain the trainers' command of the subject matter. Examiners selected as students for Training Cycle Two and Cycle Three also should be subjected to the testing requirement at the end of each course. We recommend that mid-level and senior examiners who have been identified as committed to risk-based supervision and are willing to be leaders in on-the-job training be included as part of the student body for these two cycles of training. Ideally, those tenured examiners would attend Cycle Two of the training. Recognizing their experience level and greater knowledge of risk-based supervision, training in Cycle Two will have a more concentrated focus on the application of risk-based supervision and less on conceptual issues. Attendees for Cycle Three would be more junior staff and newly hired examiners. For this group, a more even blend of conceptual issues and the application of risk-based supervision are warranted. Only those examiners with two years or less in SES, plus new hires, should be subject to the full core curriculum and commissioning test.

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**TRAINING NEEDS ASSESSMENT:  
APPENDIX A  
COURSE DESCRIPTIONS**

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## **RECOMMENDED CORE CURRICULUM**

### **Basic Banking Supervision – two weeks**

This course provides an introduction to the basic elements of risk-based banking supervision. Students will be introduced to the Risk Assessment System, the elements of examination planning and control, managing the supervisory cycle in a risk-based environment, the documentation of examination work and conclusions, and tools utilized in assessing risk. Participants will be exposed to areas of risk in an institution, and will evaluate hypothetical situations and point out areas of weaknesses and cost-effective control procedures. Students will be introduced to the CAMELS rating system designed to quantify financial condition in an institution. Case studies included. No direct on-the-job training requirement.

Participants also will be introduced to both global and local standards in ethics and professional behaviour. Students will work from cases that reflect actual examiner experiences in determining the best approach to dealing with actual or potential conflicts of interest. No direct on-the-job training requirement.

### **Bank Accounting – 4 days**

The program will review bank accounting practices and international accounting standards as locally applied in a banking environment. Participants will learn the relationships between the bank general ledger, income statement and other financial reports. Accrual accounting requirements and the adequacy of reserves will be explored. Students will develop an understanding of how financial statements are prepared and the value of transparency and audit certifications. Case studies included. No direct on-the-job training requirement.

### **Analyzing Financial Statements and Ratio Analysis – one week**

This class is to ground the student in a systematic, common approach to analyzing the financial statements of financial institutions supervised by BSP. The Bank Performance Report will be utilized as a basic means to interpret important core trends and issues in a financial institution. Case studies will concentrate on identification of areas that should be selected for examination in a risk-based environment. Post-course on-the-job training related to examination planning and control required.

### **Assessing Audit and Operational Risk – one week**

The primary emphasis of this course is to develop the participant's knowledge of the basic control environment in a financial institution, and the role and contributions of the internal audit function and external auditors. Basic elements of an internal control system will be reviewed. The elements of a sound internal audit function will be introduced, including its structure, work programs and work papers, coverage, and reporting mechanisms. There will be a discussion of the conditions under which the examination staff may utilize the results of internal auditors under risk-based supervision. The student also will be exposed to an introduction of operations risk under the Amendments to the Capital Accord (Basel Two). Case studies included. Post-course on-the-job training related to assessing internal control systems and the audit function required.

### **Basic Credit Risk – one week**

Participants will be introduced to the basic tenets of sound credit generation and the management of credit risk. Risks inherent in the granting of credit will be explored, and methods to properly underwrite credit. In addition, the course will introduce sound practice in the formatting and contents of credit policy, the role of the loan review function and internal loan grading systems, and basic skills in identifying deteriorating credit quality and

basic valuation methodologies, employing in part skills in analyzing financial statements of borrowers. Case studies included. Post-course on-the-job training to evaluate the management of credit risk rather than the classification of loans or adequacy of reserves required.

## **Liquidity and Capital Markets – two weeks**

This course will concentrate on the fundamentals of liquidity management and the use of capital markets instruments as both a hedging technique and as proprietary tools. The four broad areas in which capital markets products commonly are used will be introduced, and principal products will be reviewed, along with the methods to calculate exposures. Case studies will focus on the evaluation of systems and the management of market risk, not compliance with laws and regulations. Post-course on-the-job training will focus on qualitative assessments of market risk and sensitivity.

## **Evaluating and Holding Meetings with Management – one week**

This course should represent the final classroom training prior to eligibility for the commissioning examination. The focus of the class is best practices in corporate governance in a financial institution environment. The class will introduce students to the role and responsibilities of the Board of Directors, and highlight the role and responsibilities of senior management. Each has a part to play in a bank's ability to identify, measure, monitor and control risk. Specific topics will include a discussion of the strategic planning process, budgeting and appropriate monitoring reports. Time is devoted to coaching each examiner in conducting meetings with senior management. Selected participants will have the opportunity to hold a management meeting in a classroom environment. No direct on-the-job training requirement.

Note: BearingPoint is not developing a course in Basic Banking Supervision or in Basic Accounting for BSP in connection with this "Training Program for Banking Supervision."

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## **RECOMMENDED INTERMEDIATE AND SPECIALTY COURSES**

### **Foreign Exchange – four days**

This course introduces the examiner to the elements of managing risk and controlling exposure to foreign exchange. Participants will be exposed to the concepts of position management, risk limiting techniques and the importance of strong internal managerial reporting systems. This course may be taken independently of the core course in evaluating liquidity and capital markets. Case studies required. Post-course on-the-job training will focus on evaluating the management of risk in foreign exchange activities.

### **Asset-Liability Management – three days**

This course focuses on issues in the core course on evaluating liquidity and capital markets. This program will give incumbents a solid foundation in the issues and problems bank management encounters in managing its balance sheet. The risks inherent in balance sheet management will be explored, and how compensating controls can be developed to minimize risk. Students will be introduced to the theories associated with each activity and practical solutions to actual situations. Case exercises included. Post-course on-the-job training is required in evaluating risk in funds management and liquidity.

### **Advanced Capital Markets – two weeks**

This course represents a continuation of the core course in evaluating liquidity and capital markets. The focus is on assessing the management of risk in a financial institution's treasury operations. Students will explore the use of both standard and exotic capital markets products, methods employed in organizing and controlling a trading function, reporting requirements and internal grading methodologies to quantify and control risk. Case studies required. Post-course on-the-job training is required in selected financial institutions to assess the management of risk in treasury operations.

### **Information Technology – four days**

Electronic systems now are the linchpin of management information systems in virtually every financial institution. Intended for the generalist examiner, the class will acquaint participants with the primary control features required to ensure the integrity of management information systems and their continuity and recoverability. Software controls, physical security, hardware backup procedures, contingency plans and other issues are addressed. The special needs of end-user computing (personal computers) are covered also. Participants will tour a data processing facility and observe how the controls are integrated. No case studies. Post-course on-the-job training consists solely of the tour to the data processing facility.

### **Advanced Credit Risk – one week**

This program builds upon skills presented in the basic credit course in the core curriculum. It is designed specifically to develop examiner expertise in specialized areas of borrower financial analysis and more advanced aspects of credit risk supervision and evaluation. Students will be introduced in greater detail to the structuring and pricing of credit, the importance of cash flow, methods of credit scoring, and employment of credit derivatives. Examiners will receive instruction in sound insider lending practices and credit workout programs. Case studies included. Post-course on-the-job training is required in assessing the management of credit risk.

## **Basel II – Assessment of Capital Adequacy – 3 days**

Participants will be introduced to the calculation of the revised weighting of risk assets under Basel II, and to the introduction of operations risk and disclosure requirements. Instruction will be devoted to assessing the readiness of a commercial bank for implementation of new credit and operations risk requirements, and the assessment of a bank’s capital adequacy under Basel II. Case studies included. No on-the-job training requirement.

## **White Collar Crime/Money Laundering – 4 days**

White collar crime can be a very serious threat to an individual institution, and has had severe ramifications for individual banks globally. The course provides examiners with knowledge concerning such crimes and how such events can be detected and controlled in a financial institution. Course content will reflect local legal requirements. Participants also will learn how to document these events if detected. Case studies included. Post-course on-the-job training is required in assessing the management of risk in this area.

## **Supervising Troubled Banks – one week**

This course is designed for senior examiners and supervisors who deal routinely with financially troubled institutions. It incorporates the theory and standards behind rehabilitation of troubled banks, the development of effective policies to deal with problem institutions, and the employment of enforcement remedies. Identification of emerging problems is addressed in a risk-based supervision environment. Participants will formulate supervision strategies in a “case” environment for three institutions, with the results presented in class. Participants will gain a strong knowledge of how troubled banks should be supervised to maximize the potential for correction of existing problems.

### **Additional Recommended Intermediate and Specialty Courses**

<b>Corporate Governance</b>	<b>Consolidated Supervision</b>
<b>Off-site Supervision Techniques</b>	<b>Payments Systems</b>
<b>SME Lending</b>	<b>Consumer Lending and Credit Scoring</b>
<b>Agricultural Lending</b>	<b>Trust Operations and Private Banking</b>

Note: BearingPoint is not developing or delivering the recommended intermediate and specialty courses for BSP in connection with this “Training Program for Banking Supervision.” The Training Institute has course offerings in several of these additional recommended courses. The contents of those courses can be incorporated into revised versions that focus on the execution of risk-based examination techniques.

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**TRAINING NEEDS ASSESSMENT:  
APPENDIX B  
RECOMMENDED EXAMINER TRAINING  
DOCUMENTS**

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## SAMPLE INDIVIDUAL DEVELOPMENT PLAN (TECHNICAL)

NAME: Examiner GRADE: \_\_\_\_\_ Start Date: \_\_\_\_\_

OFFICE: \_\_\_\_\_ IDP PERIOD: 15/7/X1 to 15/1/X2

SKILL TO BE DEVELOPED: Advanced Credit Risk

Measurable results to demonstrate skill have been developed:

- a. Identify the components needed to be considered in credit analysis of complex loans
- b. Assess internal credit risk grading system
- c. Independently review and evaluate selected credits for complex loans.
- d. Identify the major risks in a specialized loan portfolio.

<i>TRAINING AND DEVELOPMENTAL</i>			
<b>ACTION STEPS</b> (May include on-the-job, formal, or self-directed activities)	<b>TIME FRAME</b>	<b>DATE COMPLETED</b>	<b>COMMENTS AND INITIALS OF INDIVIDUAL CERTIFYING COMPLETION OF ACTION STEPS</b>
1. Participate in four examinations for OJT			
2. Attend Advanced Credit Risk class			
3. Concentration on evaluation of credit risk management systems, including credit origination, credit workout, loan grading system, credit information system, internal loan review.			
4. Study the Loans section of the Handbook for Examiners.			

\_\_\_\_\_  
Employee's Signature

\_\_\_\_\_  
Division Manager's Signature

\_\_\_\_\_  
Date

15/1/X2 CERTIFICATION OF IDP COMPLETION

\_\_\_\_\_  
Follow-up Date

\_\_\_\_\_  
Division Manager's Signature (Date)

## SAMPLE ON-THE-JOB TRAINING SCORECARD

<b>Name of Examiner:</b>
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Functional Area	Program Assignment	Date Completed	Date Completed	Date Completed	Date Completed
Credit Risk Management	Review quality of credit policies				
Credit Risk Management	Review credit processes				
Credit Risk Management	Review credit origination techniques				
Credit Risk Management	Determine adequacy of loan review function				
Credit Risk Management	Review soundness of internal loan rating system				

Note: Provide date an examination function was completed in the designated square. The Examiner-in-Charge or mentoring examiner also must initial the “Date Completed” square.

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## **SAMPLE ON-THE-JOB TRAINING PERFORMANCE REPORT**

<b>Name of Examiner</b>	<b>Date Began BSP</b>	<b>EIC or Mentor</b>
<b>Name of Bank</b>	<b>Date of Examination</b>	<b>Period Assigned to Exam</b>

**To be completed by the Examiner:**

Provide a summary description of work assignments completed during this examination.

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**To be completed by the EIC or Mentor:**

Comment on observed technical skills and job functions. Comments must be supported by specific observations.

Provide a rating of overall performance during this examination in accordance with BSP evaluation criteria for examiners. Comment on overall job performance in relation to the performance rating assigned.

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**CERTIFICATION:**

This progress report was discussed with the Examiner on (Date).

<b>Signature of Examiner</b>	<b>Signature of EIC or Mentor</b>
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**TRAINING NEEDS ASSESSMENT:  
APPENDIX C  
SUMMARY RESULTS OF TRAINING NEEDS  
QUESTIONNAIRE**

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## **SUMMARY RESULTS OF TRAINING NEEDS QUESTIONNAIRE**

BearingPoint advisors developed a 34-item questionnaire for SES staff to assess its own training needs in the five subject areas in which BearingPoint will develop risk-based supervision training courses for SES examination staff. These five areas are:

- Financial statement and ratio analysis
- Assessing internal controls/audit and operational risk
- Assessing credit risk
- Liquidity and capital markets, and
- Evaluating and conducting meetings with bank management

A total of 70 SES staff completed the questionnaire, including 25 each from SED I and SED II; 10 from SED III; and five each from SED IV and SRSO/SPDDC. Respondents were anonymous.

The questionnaire was divided into two main sections. The first section was a self-assessment of training needs in each of the five subject areas; the second section required respondents to rate the relevance of each topic to their current job performance.

### **Summary**

In general, the respondents rated themselves as needing intermediate to advanced training in all five subject areas. They rarely rated themselves as having thorough enough knowledge to be trainers in specific topics. For example, only one respondent from SED I and two from SED II rated themselves capable of training others in at least one of the topics in all five subject areas.

Overall, the two subject areas in which respondents indicated the greatest need for training were assessing internal controls/audit and operational risk, and liquidity and capital markets. Generally, respondents expressed a need for intermediate training in these subject areas.

In the credit risk area, three of the four divisions indicated a need for improved knowledge in assessing the credit underwriting process. Training in this topic appears to be most needed of the eight topics queried in this area.

In general, respondents rated the relevance of each topic to their job performance very highly. With rare exceptions, they noted that their jobs required either a thorough mastery or advanced knowledge of each topic in all subject areas.

### **Rating of Relevance and Quality of BSP-sponsored Training**

At the end of the questionnaire, respondents were required to rate the relevance and quality of the training they have received to date at BSP.

Generally, the respondents gave high ratings to both the relevance and quality of the training they have received to date at SES. On a scale of 1 to 5, with 5 the highest rating, 86% rated the relevance of their training "4" or better while 83% rated the quality "4" or better. One noteworthy result is the higher rating accorded to relevance, 20% of respondents rated it "5," than to quality, which 8% of respondents rated "5."

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## **Requests for Training**

A number of respondents expressed interest in both basic and more advanced training in specific topics. These topics included:

- Capital markets
- Computer training for more on the job efficiency
- Corporate governance
- Credit risk
- Derivatives
- Liquidity
- Risk management
- Risk-based supervision
- Treasury operations