

PROPOSAL TO OPTIMIZE THE SUPERVISION AND REGULATION SCHEMES OF THE ORGANIZATIONS OF THE SOLIDARITY ECONOMY SECTOR WHICH PROVIDE FINANCIAL SERVICES .

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1. Introduction

The document CONPES 3639 of 2010 presents seven strategic lines which form the basis for the development of the proposals presented in this consultancy, which are aimed at the reorganization of the cooperative sector dedicated to financial activity. The objective is to solve the problems arising both from the concerns expressed by the cooperative sector and from the structural and operational limitations that affect cooperative entities, employee funds and mutual associations and their respective regulation and supervision by the SES.

This document constitutes the deliverable 4 of contract 2012075 "Proposal to optimize the supervision and regulation schemes of the organizations of the sector of the solidarity economy that provide financial services". A number of regulatory and supervisory measures for the solidarity economy sector providing financial services are proposed below, and a change in the system architecture is recommended to limit the type of licenses with the possibility of offering financial services in a context of solidarity .

2. Reorganization of the architecture of the cooperative sector that provides financial services, in line with international standards

Through the development of this consultancy and in particular, in the document corresponding to the *DIAGNOSIS OF THE ENTITIES OF THE SOLIDARITY ECONOMY SECTOR WHICH PERFORM FINANCIAL INTERMEDIATION ACTIVITIES*, it has been stated that organizations of the solidarity economy that provide financial services can be classified In four

1 The strategic lines contemplated in the CONPES document are: 1) regulation for business development, 2) institutional adjustment of the sector for business development, 3) simplification and rationalization of procedures for the registration and supervision of solidarity, 4 (5) optimization of regulation and supervision schemes for the provision of financial services; (6) facilitation of access to development tools; and (7) strengthening of the cooperative and pre cooperative mechanisms of Associated Work - CTAs and PCTAs. The provision of information and statistics in the sector.

Groups, each of which has its own regulations, nevertheless offer similar financial services:

- **Cooperatives of Savings and Credit**, CAyC, which can raise funds for savings and contributions from its members, borrow from credit institutions and place these money among its associates, in addition to providing a range of services such as insurance sales, recreation , Education, among others. CAyC associates can have a common association bond by industry, pattern, activity or they can be cooperatives without common bond, that is, offer their services to associates who wish to be linked and meet the requirements established in their bylaws. Because they collect savings, they are covered by Fogacoop managed deposit insurance.
- **Employee Funds**, FE, which have a closed link, although it has been expanded to link associates by activity, which has been eliminating the difference that should exist with CAyC. Despite having a specific regulation, due to the proximity mentioned above, some have even become CAyC. However, they do not have access to deposit insurance and their reporting and operating obligation, as they are not required to have a solvency margin, differs from CAyC.
- **Mutual Associations**, AM, which have their origin in the clearest principles of solidarity and support. Therefore, they are oriented to meet the needs of their partners in the social security order. They also have specific regulations and can capture savings from their associates and lend money under conditions similar to those of the two previous groups.
- **Financial Cooperatives**, CF, which can offer services to its members and third parties in general. Its structure is cooperative and for regulatory purposes are assimilated to credit institutions. This implies that they have, in a similar way to the other types of entities analyzed, their own regulation, from the norms for cooperatives and norms of the Organic Statute of the Financial System.

From a supervisory standpoint, the first three categories of entities belong to the supervisory orbit of the Superintendency of Solidarity Economy (SES) and last to the Financial Superintendence (SFC).

Although each group has its own regulation in terms of operations, the requirements of creation, disclosure, monitoring and indicators, among others, are different and some entities perceive that there is difference in quality and requirement in the supervision they exercise The SES and the SFC. The above was also documented at the time in the diagnostic deliverable of this consultancy.

However, as it is hardly obvious, the difference between the rules applicable to each of the groups prevents supervision being efficient and fulfilling its objectives. This aspect is aggravated if it is considered that the financial activity is specialized and that thanks to a little detailed regulation it can be developed by solidarity organizations that may not have the necessary strength, nor be technically prepared both at the general level and at the level particular.

An example of this is the case of microcredit, which implies having a minimum granting infrastructure, as well as specially designed methodologies for the control of credit risk and whose treatment is observed very differently in each group.

It has also been observed that regulatory dispersion and differences in supervision have allowed them to create intermediaries away from cooperative principles. In this way, in the market they offer to the service

companies that protected in the multi activity, are organized as cooperatives of contribution and credit, whose main and only purpose is the origination of portfolio with mechanism of liberation to be sold to commercial companies oriented to the use of the granted advantages granted by law, mainly tax and priority in the resolution of disputes for non-payment- These “cooperatives” are a clear example of organizations that, in addition to not observing the principles of solidarity, do not contribute to the financial inclusion or defense of the associate against abusive forms of unsupervised financial intermediation.

On the other hand, the solidarity sector has examples in which cooperative activity has been distorted by companies that, taking advantage of the regulatory and supervisory gaps, do not fulfill the principles and compete with formal solidarity organizations. In many cases this leads to solidarity organizations being forced to compete more as a commercial establishment than as an organization that has no profit as one of its objectives.

Therefore, with the aim of promoting a healthy normative homogenization within a context that guarantees fair competition among all market players, one of the proposals of the consultancy is to reduce to two the number of groups that can provide financial services. In observance of the cooperative foundations and the guiding principle of regulation at the international level, which is predicated “ the same business, same risks, same rules”.

Relationship between industry concerns raised in the CONPES and the architecture of the solidary sector that lend financial services

In the solidarity sector CONPES document, consulted industry said to series of objections to current standards, attending to cooperative way in which can occur these entities today.

The aspects raised by the cooperative sector is the impossibility of the cooperative entities subject to the supervision of the Superintendency of Economy Solidarity- SES to carry out financial intermediation operations with third other parties than associates. In this regard, the prohibition seeks to protect the solidarity of these types of entities. which is based on the voluntary cooperation of its members in the economic and social, as a means to get producers and consumers to obtain a greater benefit for the satisfaction of their needs. By allowing financial intermediation operations with non-associated third parties that do not share the mutual ideas of the same, the concept would blur and would lead to loss of the cooperative course of these institutions.

However, it should be recognized that some cooperative entities have proven to be efficient tools for deepening financial activities in the population, which is why it is considered that access by third parties not associated with the benefits of the cooperative entity can be done through Of the definition of a structural scheme that allows both the appropriate management of the risks derived from the financial activity, as well as its adequate supervision.

In this regard, in view of the second of the strategic lines mentioned in the CONPES document, the institutional adjustment of the cooperative sector with powers to exercise financial intermediation should start with the organization of the institutions that can legally develop it. In this case, as the evidence presented through the consultancy indicates, the path proposed **is the reduction to only two types of cooperative entities that can carry out financial intermediation activities: 1) open to associates and unrelated third parties; 2) closed, dedicated solely to the attention of associates.**

Open-bond cooperatives are those that can raise funds and provide services to partners and unrelated third parties. This, implies that there is no common bond of association. Closed cooperatives are those that only provide services to their associates, who, may have a common bond, as would be the case with employees of a company, or not have that affinity as in the case of cooperatives that Offer their services to associates who have no correlation with each other.

The Supervision of the open ones will correspond to the Superintendence of Finance of Colombia - SFC, due to the fact that resources of the savings of people not related to the cooperative sector are involved. On the other hand, the supervision of the closed ones will be realized by the Superintendency of Solidary Economy - SES, given the affinity that binds to the associates of these entities. In any case, in the development of the principle of "same business, same risks, same rules", the operational and prudential rules for the exercise of the financial intermediation activity must be homogeneous for both categories (without neglecting principles and typicalities of the Solidarity sector), in order to avoid regulatory arbitrage, gray areas of regulation and indiscipline in the markets.

regarding to the deposit insurance, considering that both groups have savings capture, a similar management approach is proposed, that is, in the case of open cooperatives and therefore, supervised by the SFC, the insurance must be administered By FOGAFIN and in the case of closed cooperatives, by FOGACOOB.

Outside these two categories, no other entity in the cooperative sector should be able to engage in financial intermediation. This is because this activity in the constitutional order is of public interest, which implies that it is the State that must establish rules for access to its exercise, for its intervention and for its supervision. This reorganization would imply the migration to any of the two raised categories of employee funds that currently carry out financial intermediation activities. Mutual associations that have financial intermediation activities must become closed cooperatives or split into one mutual entity in the social security field and another, in the form of cooperatives with open or closed intermediation activities.

In terms of granting credit, it is considered that both open and closed cooperatives can offer the various modalities with a limited scope of action closed cooperatives, as mentioned below. This is based on the premise of the solidarity nature in which credit is granted to a person (the affiliate), while commercial credit is more related to the type of credit that is granted by controlled entities of a non-nature Solidarity

The development of financial intermediation activity by solidary entities was aimed at the granting of credit primarily to associated natural persons. With the deepening of the activity of solidarity, the form of association and therefore the possibility of access to credit was extended to legal persons under public law, nonprofit corporations and businesses and economic units when the owners work in them and family or associate work prevails2.

This delimitation of legal origin, which seeks to preserve the solidary character of these organizations, is not currently consistent with the uncontrolled supply of commercial credit by

CAYC, FE and AM that has led to the emergence of problems such as the excessive concentration of Credit in companies to the detriment of associated natural persons, exacerbation of financial risks, especially liquidity, as well as the capture of solidarity organizations by the same business clients.

In this sense, it is considered that the organization of the credit supply of the closed cooperatives must obey a criterion that allows the priority attention of the natural persons associated in modalities like microcredit, consumption and housing. Consequently, the cooperative that has as strategic focus the attention of public and private companies of any nature, can not do so being a closed cooperative. Only open cooperatives will be able to attend associates or public and private business clients, as well as partnerships or limited companies where family work does not prevail.

The second of the aspects raised in the CONPES document is the perception of risk that the entities of the cooperative sector possess. As can be observed through the consultancy, the proliferation of solidarity entities that are in the possibility of financial intermediation has resulted in economic losses, inattention to financial consumers, ignorance of the way both contributions and resources are handled, In the impossibility of performing adequate supervision, in addition to incurring forms of abuse of the law that allow the transfer of tax benefits, portfolio resolution and others, to mercantile companies oriented to turn them into economic benefits to the detriment of true solidarity organizations.

This has implied that the cooperative sector that performs financial intermediation is observed with a high propensity to the inadequate management of the risks. This sectoral problem can be addressed through the institutional adjustment proposed above, combined with a strategy aimed at optimizing the regulatory schemes and supervision of risks arising from financial intermediation activity, which must be aligned and homogenized both at the entity level Intermediaries and those in charge of supervision, as shown below in this consultation document. Likewise, a strategy is needed to strengthen mechanisms that facilitate a fluid supply of information, which allows the production of robust statistics of the sector that allow the design of clear intervention policies.

Article 21 of law 79 of 1988

The third nonconformity of the cooperative sector refers to the barriers that are imposed and that prevent the free competition of cooperative entities in the financial system. In this regard, the consultancy is reiterated in stating that from the constitutional point of view, financial intermediation activity is in the public interest, which implies a superior category to other types of activities that individuals can develop. This entails that by its nature, financial intermediation should be developed under pre-established technical conditions and only by those who can demonstrate that they are able to do so safely.

In this vein, the proposed reorganization allows for the alignment of solidarity organizations according to the diverse interests of their associates. If the group wishes to undertake financial intermediation operations among its own partners, it must comply with the regulations governing such activity, as well as the rules established by the SES in matters of supervision and monitoring. But if the intention is to carry out financial intermediation with non-associated third parties, they must observe the requirements

established for the purpose by the law, with observance of the rules established by the SFC and under the supervision of it.

This scheme would ensure orderly access to financial intermediation by cooperative organizations by establishing homogeneous rules applicable to closed and open entities for access to the financial sector and for the development of active financial operations , Passive and neutral.

3. Limitations affecting the cooperative sector according to the CONPES document

Multi Activity and financial intermediation

The first limitation has to do with the lack of clarity in relation to the criteria that authorize the development of the financial activity to the multi activity cooperatives and integral with section of credit, which has allowed that the multi activity loses the character of exceptionality that predicts the norm, given the risks that derive from it.

Taking advantage of the legal flexibility that allows the creation of organizations in an easy and low cost manner, as mentioned throughout the consultancy, multiactive cooperatives have been created that completely disavow the solidarity nature of the activity³.

It should be noted that this situation is noted in the second paragraph of article six of Law 79 of 1988, which states that, "No cooperative will be allowed ... Establish with companies or mercantile people, combinations or agreements that involve them, directly or indirectly, in the benefits or prerogatives that the laws grant to cooperatives. "

The following is a possible scheme that supports the above observation:

A business owner creates a multi-active cooperative whose main characteristic is that it does not capture savings from its associates, which clearly "deprives visibility" and, moreover its main activity is the generation of a consumer loan portfolio, specially with payments from public entities, being preferred the armed forces and police, pensioners, teachers and others who are very important sources of employees.

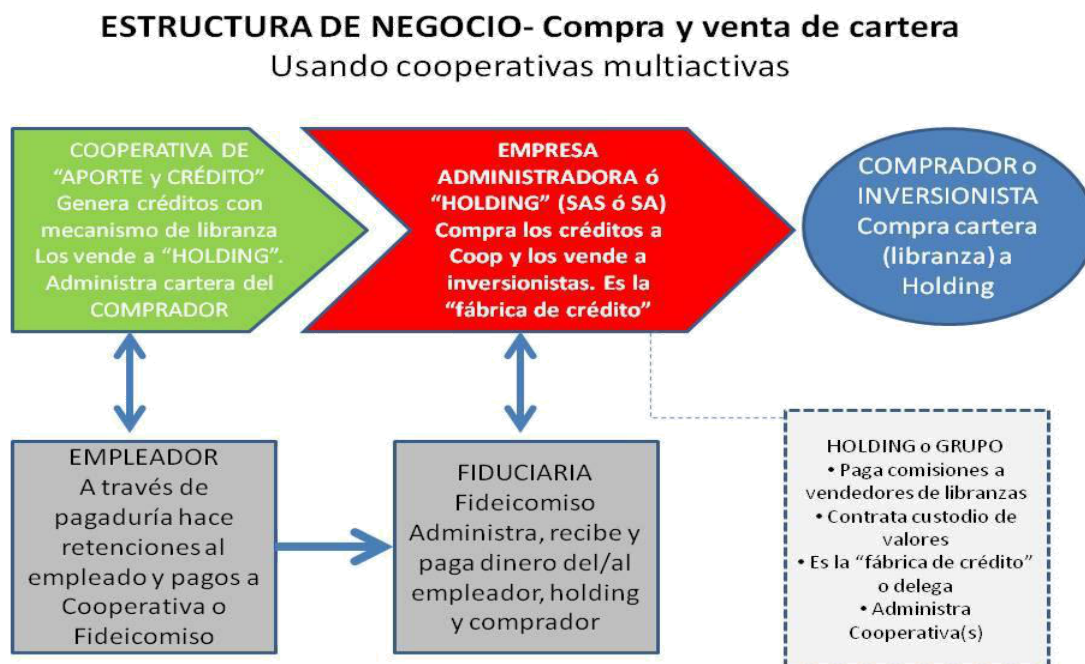
The cooperative generates the credits and sells them firmly to a holding company or group, usually a SAS (a simplified joint-stock company) or an SA (anonimus corporation), supervised by the Superintendency of Companies, which generates for itself the profit for the purchase and sale of that portfolio to third parties, using an administration vehicle for the documents, payments and collections, to a trustee company. In addition, if the company was created as SAS and within the framework of the first employment law, the tax exemption established there further improves the profitability of the owners of the company that is denominated as a holding company.

These third parties may be credit institutions that consider a better business to buy a portfolio than generate it, or investors interested in achieving a return higher than that obtainable with a CDT or in a Collective Portfolio.

The sources of resources of the cooperative are the contributions of the associates, loans from the holding company or banks and the result of the sale of the credits. The balance of these cooperatives is atypical, since the operation is reflected or recorded in memorandum accounts, that is, outside of the balance body, while showing in its balance a low portfolio share in total assets. As the portfolio is sold, the equity required is less than that required for an entity acting as a true cooperative.

The credits are placed at maximum rates and other charges are added, such as affiliation, contributions, credit study, medical or dental service, solidarity fund, insurance and others, which increase profitability with effective rates that exceed the legal maximum allowed.

The following graph summarizes how the system operates:



Source: Based on information published by the Vanguardia newspapers (Edition of February 11 of 2013) and La República (Edition of February 16 of 2013).

As can be seen, the scenario surrounding the multi activity of the cooperative sector has been the most conducive to exacerbating financial risks. The mixture between diverse activities and financial intermediation has caused the confusion between the resources obtained via contributions and those of the parallel activities, which has generated a leverage of the main activity of the multi active cooperative and vice versa, depending on the evolution of one Other business, thus losing the limits in the management of flows and making it difficult to assess the risks and their supervision.

Multi Activity is not a modality that favors an adequate scheme of deepening the financial intermediation on a secure basis, reason why it is necessary to enter to optimize the regulatory and supervisory schemes for the provision of the financial intermediation service with the legal elimination of the Possibility of developing multi-activity activities in parallel with the activity of financial intermediation.

For entities in this category, legal deadlines should be established for the dismantling of credit sections and to facilitate their liquidation, alienation or specialization through the establishment of cooperative entities dedicated to financial activity, closed or open, with compliance Of the corresponding access requirements.

In other words, the so-called contribution and credit cooperatives must not only become cooperatives open or closed as the case may be, but in addition, those that maintain their multi-active nature can not develop financial intermediation of any kind.

Additionally, in order to prevent situations similar to those described above, it is considered necessary to establish a limitation according to which closed savings and credit cooperatives can only sell their portfolio to other cooperatives or give it in guarantee of credit granted by credit institutions . Open cooperatives, since they are assimilated to a credit institution, can sell them to other cooperatives and credit institutions, and also, give it as a guarantee for credits.

At the same time, it is necessary to strengthen the provision of information and statistics on these types of entities and new ones that could be created.

Nature and risks of cooperative contributions

The second limitation refers to the partner's' lack of knowledge about the risk inherent in the nature of the contribution, which, according to sentence T-274 of 2000 and T-478 of 2002 of the Constitutional Court, is considered as risk capital.

In this regard, it is necessary to consider that the members of a cooperative dedicated to financial intermediation fall within the definition of "financial consumer" that establish the current legal norms. In this order, there are tools that protect consumers from financial services that can be optimized within the regulatory and supervisory frameworks of cooperative entities.

This is because the ignorance of the risks of the associates at the moment in which they make a cooperative contribution is adequately supplemented with a strategy that allows the fulfillment of the

duties of information and attention that the entities dedicated to the financial intermediation, Which are in line with the financial education obligations to be given to consumers and which are part of the Financial Consumer Care System (SAC) established by Law 1328.

In this sense, since the contributions of partners are defined as risk capital, solidarity organizations, and especially those that have a savings section, must disclose as much information as possible on their web pages and in the The supervisory bodies, in such a way that the partners can know if the charitable organization is authorized to carry out its activity, who are the administrators and members of the social control bodies, as well as the relevant information about the management of the savings and the Contributions. In other words, the weakness of the supervision scheme of the solidarity sector is conducive to trying to cover up commercial companies or illegal collectors, which forces to make available to the public information about which are the real entities and that helps to identify those that do not Are authorized. It will also be the job of the SES to carry out promotional campaigns, as has long been the SFC, so that people become accustomed to confirm the authenticity and seriousness of the cooperatives to which they come.

At the same time, it is necessary to increase the stock of information available to the general public both in the entities and in the SES, which implies insisting on the need to have reliable databases with extensive series over time and systems for their administration. This implies, also, a periodicity in the much smaller report (nowadays it is quarterly), since the supervision demands that the monitoring is permanent.

In summary, the best strategy for financial consumers in the cooperative sector to have a better knowledge of the risks to which they contribute, is to provide them with timely and transparent information, as well as all the knowledge tools that allow them to make a decision Informed These are premises that are documented in Pillar III of the Basel Agreement.

Liquidity Management

The third limitation lies in the inadequacy of a regulatory framework that defines parameters for the administration, through the Central Liquidity Fund, of resources that correspond to liquidity funds that are constituted by some organizations of the solidarity economy by virtue of mandates Regulations that have been issued in order to fulfill a function of protecting the assets of these organizations and guarantee the existence of resources that allow adequate attention to the obligations derived from deposits and liabilities.

Parallel to the structural adjustment proposed by establishing only two categories of entities engaged in financial intermediation in the cooperative sector, it is of significant importance that three aspects of liquidity be defined for these entities: first, the rules that Must observe in the measurement and attention of the liquidity risk within the organization; Secondly, the effectiveness of liquidity risk protection mechanisms, such as mandatory reserve funds; and third, the way in which a Central Liquidity Fund could operate and access to it.

Emphasis is placed on the need for permanent and exhaustive monitoring of the cooperatives' liquidity position, because in addition to the impact of a default on an entity, liquidity risk in cooperatives can have a significant domino effect in The financial system. This is because cooperatives constitute their liquidity fund in financial cooperatives, the only cooperative body of higher degree, or in banks. These three types of entities, in turn, reposition these resources in credits for other solidarity organizations which imply a structurally fragile cycle if liquidity is not adequately controlled. Moreover, the more interconnected these

liquidity networks are, the greater the fiscal contingency for the State in view of the "too-connected to fail" phenomenon 4.

Additionally, today the risk of illiquidity in cooperatives, employee funds and mutual associations is greater than in credit institutions, since the former do not have a central or lender of last resort. In adverse market conditions and the rise in the discount margins, the sale of the bonds of the cooperative's liquidity fund could become difficult and costly. This is an eventuality that implies the need to ensure mechanisms that allow cooperatives to adequately deal with withdrawals of deposits and losses of credit quotas granted by other cooperatives or credit institutions.

4 This concept is related to the impossibility for the State to allow a process of insolvency of an entity that is very "connected" with the rest of the industry, to avoid the contagion to other entities.

However, in order to arrive at schemes of this depth, it is necessary, in addition to the proposed institutional adjustment, to strengthen the provision of information and statistics in the sector that will allow the establishment of precise rules of intervention for the access of "open" and closed "financial cooperatives" to A scheme of liquidity similar to the one of the SARL that the entities monitored by the SFC currently count on.

Mutual Associations and Employee Funds

The fourth limitation concerns the services provided by employee funds and mutual associations and is related to the need to extend prudential regulation for this type of organization in consideration of its legal structure and corporate purpose, as well as the risks inherent in the provision of financial services among its associates, which are practically the same as those faced by cooperative entities.

With the proposal of institutional adjustment of the cooperative sector that is exposed in this consultancy, it is sought to simplify the types of solidarity entities dedicated to the activity of financial intermediation for two reasons: on the one hand, because the proliferation of organizations dedicated to the same purpose with Regulations and levels of supervision has contributed to the lack of transparency in the development of cooperative activity with the correlative loss of confidence of financial consumers. On the other hand, because the innumerable associative forms of mutual nature that are created each day for the purpose of financial intermediation have exponentially increased the risks of loss or inadequate utilization of the resources collected from the public in the form of contributions or savings, Without the competent State agencies being in a position to intervene and control the situation efficiently.

This makes it possible to affirm that with the specialization of employee funds as closed financial cooperatives and the establishment of the prohibition for mutual associations to carry out financial activities, to give way to the categories of open and closed cooperatives dedicated to financial intermediation, it would be possible The application of both homogeneous standards for the control of risks, as well as a prudential regulation that effectively protects the consumers of this sector and that concomitantly allows the orderly growth of the same.

Supervision

Finally, as a fifth point, it is particularly important to strengthen the supervision mechanisms of the Superintendency of the Solidarity Economy, as well as the strengthening of the resources destined to carry out its functions in the areas of inspection, surveillance

And control of the financial intermediation activity developed by the cooperative sector. This is discussed in more detail in the next chapter of this document.

Likewise, it is necessary to carry out a review and adjustment of the mechanisms of intervention in the financial sector of which the National Government has in order to adapt some of a special way to the activities of the solidarity sector and the establishment of specific powers of intervention for the Open and closed cooperative entities engaged in financial intermediation.

In what follows, it is proposed in general terms how the supervision and regulation of the solidarity sector that provides financial services should be developed and strengthened.

4. Proposal of a regulatory and supervision scheme based on best national and international practices and the diagnosis made in the consultancy

Introduction

CONPES 3639 of 2010 states that financial activity must be developed in an orderly manner, in a safe manner and in accordance with the general structure of the financial system, and that regulation should be neutral and should not be forced to adjust to the particularities of Each legal form. In this sense, it points out a fundamental idea that takes into account the Federal Financial Supervision Authority - BaFin - which is the supervisor of the entire German banking system with the Central Bank, in its scheme of supervision and regulation of the entire financial system: Same business, same risks, same rules ".

The Superintendency of the Solidarity Economy (SES) and the Financial Superintendency (SFC) have the character of a technical agency of the State and are in charge of the inspection, supervision and control of the entities that provide financial services, however they have dissimilar models to carry out The regulation and supervision of the entities under its responsibility, while the SFC performs risk-based supervision in accordance with international standards issued by international organizations such as Basel, IOSCO, IAIS and IOPS, and has been supported by international cooperation agencies in Financial supervision, SES bases its model on the analysis of a set of financial indicators and the requirement of better standards for its patrons in terms of technical capital, liquidity and corporate governance.

In the same sense, supervision is based on a regulation that develops best practices in risk management, the use of different models that develop the regulatory calculation of the different risks taking into account a series of quantitative requirements and qualitative requirements as part Key to any risk management system. In this way, the optimization of the regulatory scheme must take place when SES adopts the best practices of the global financial industry in terms of risk management, and in particular, with regard to compliance with the standards established in the New Agreement Capital or Basel II.

Additionally, financial services have been, and continue to be, a sector of intensive use of products with a high innovation component in information and communication technologies (ICT) and data processing, stimulating their Financial products with processes of sophistication, complexity and opacity in some cases, in turn disappearing the boundaries between financial sectors. These constant changes lead to changes in the supervisory authorities in a double front: in the contents and orientation of supervision and in the institutional reorganization of these activities.

This document will provide a review of the elements that, due to our experience in supervision and the best international experiences mentioned in the diagnostic document, should be taken into account when undertaking a technical, human and financial effort to carry out a process Of optimization for the supervision and regulation schemes.

Strategic elements for optimization for supervision and regulation schemes

Risk oversight has been understood as an effort by the supervisor to intelligently and prospectively monitor a sector in steady growth and accelerated sophistication. In this sense, the essence of risk supervision is based on the prioritization of supervision objectives, to cover those activities or risks that are more likely to materialize and, in turn, the greater impact of this materialization, taking into account those controls that mitigate the And allows the supervisor to construct a risk profile of the monitored.

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Regarding the content and orientation of the regulation, possibly the most influential element on the way to make regulations has been the consideration of risk and the preponderant weight that has been given in the business strategy, corporate governance in The entities and the strengthening of internal controls, issues directly related to the regulatory development of the Capital Accord (Basel II and III).

For this reason, we recommend from our professional experience in the construction of risk supervision models to structure a "Management model for the optimization of supervision and regulation" focused on generating in the responsible behavior responsible for the management of financial risks , Good corporate governance and the strengthening of internal controls.

Our management model considers the following elements:



It should be noted that we are facing a window of opportunity to mature the cooperative sector, starting with the adoption of a real risk supervision scheme and that entities in the solidarity sector follow the evolution that in recent years the entities of the Colombian banking system have Had improved its systems of measurement and management of the risks inherent to said business. Moving forward in this direction remains an open challenge for all solidarity economy organizations that provide financial services, since their strong growth of almost a decade again presents a threat of stability and the most worrying thing is that it is not possible to discard a potential Repetition of crises when a new cycle of strong deceleration occurs, if structural adjustments in regulation and supervision are not carried out in the sector, with the aggravation that any change of this type usually takes several years to "settle".

4.1 Supervision policies

The approach from which the supervision by the SES has been approached has been based on the "compliance" model, which is based on a reactive strategy against cases of denunciation of people whose rights have been violated As financial consumers, review of individual transactions, breach of accounting standards and facts complied with. In essence, this strategy of traditional "compliance" supervision has as its main tool, value redundancy, verification of the "compliance" of the precepts of the respective rules and instructions.

However, in order for the SES and in particular the Financial Activity Supervision Delegate to be able to migrate to a risk-based supervision scheme, the entire supervisory management model must be reconfigured in order to induce the monitored To involve financial risk management in their business processes. Of course, this also includes the need to create and adapt both standards and supervision

To the characteristics of a heterogeneous financial services cooperative industry, but nevertheless in permanent expansion.

For example, a cooperative of financial services with geographically limited presence, with operations between its partners and non-significant amounts, should not be supervised with the same efforts as an open cooperative of a size similar to that of a credit institution. In each case, the inherent risks of the financial operation must be evaluated, in terms of their probability of materialization and impact given the materialization, as well as the controls defined and implemented by the respective entity, the entity's capital and the recurrent generation of Resources, all information from which the work of supervision is prioritized.

In short, the concept of risk supervision must start with a change in the supervisor's mentality. From now on, for example, it will not be logical to visit an entity to verify specific credit operations. This case, per se, does not allow focusing the supervisory effort (and the scarce resources of the Delegate) in the management of those inherent risks of "greater materiality". However, this does not mean that this task should be completely ruled out; It should be part of a strategy that prioritizes the supervision effort, with an implicit risk management vision.

Therefore, a series of policies will be presented that should govern the "Management model for the optimization of supervision and regulation".

- i. Monitoring will migrate to a risk-based approach, as opposed to the traditional compliance approach.
- ii. Consequently, monitoring will cease to be reactive and will become prospective.
- iii. To be prospective, it should focus on the management of credit, market, operational, liquidity and money laundering and terrorist financing risks in the monitored entities, and not on whether those entities comply with existing legal precepts one by one.
- iv. This approach to management should seek to promote in institutions the development of best practices that ultimately generate a responsible and rigorous management of the resources of partners, the duty to demonstrate and justify on the part of the entity the reason for the implementation of a certain management system, and that the supervisor arrives through methodological procedures to know the entities in charge.
- v. Supervision should be developed in a comprehensive manner. That is to say, in a cooperative system in which there are presence of savings and credit institutions with related and complementary activities in aspects of production, distribution, consumption and provision of services, the entities belonging to them have important interrelations that contribute to their solidity And social function but also expose them to specific risks. Therefore, their supervision can not be carried out in isolation, but must be analyzed within the economic or financial context to which they belong.

vi. A convergence program for risk-based supervision should be created taking into account cost-benefit criteria because risk regulation and supervision brings benefits in terms of sector stability, greater security for partners and Support, but also involves costs for system participants, especially for supervised entities.

These costs not only include those directly related to compliance with regulations, such as the sending of information, preparation of reports, etc., but also all those opportunity costs related to greater restrictions for the development of financial activity in having to develop And improve risk control mechanisms.

vii. There should be no "paternalistic" oversight supervision, so that, the primary responsibility for the functioning of financial services cooperatives rests over them, in particular, on its directors board. In this way, the supervisor could promote self-discipline of the sector in two levels: Industry and firm. At the level of industry, promote the proper functioning of self-regulation that seeks the effective operation of the actions of participants in the sector and its promotion. At the firm's level, the SES should strengthen the corporate governance of those monitored, seeking that entities have adequate practices and management and control structures.

Viii. The SES must have a governance scheme through the directors board, directors or administration council that improves the performance and transparency of the Superintendency, and where controversial issues of policy for the sector are transcendental. This council could be formed by the Superintendent, who would be the President of the organ; A member appointed by the Central Bank; A member appointed by the Minister of Finance and Public Credit; A member appointed by the Financial Superintendence; and a member who has held executive positions in the SES.

ix. The Financial Activity Supervision Delegate should have an efficient allocation of financial, human and technical resources that does not predetermine the level of supervisory attention to certain areas of competence and may restrict the attention of other areas. The evidence that is observed in supervisory agencies suggests that the attention given to entities is highly correlated with the available resources and not with the problems of attention in certain areas of the entities.

x. There should be a monitoring methodology composed of processes, procedures and activities, which will generate a series of basic products such as

"Institutional records", "risk reports" and "risk matrix", which requires that certain types of information be kept up-to-date.

xi. Supervision should be supported by a robust information processing technology tool that facilitates analysis by the team of supervisors as well as a "grabber" of relevant information to carry out the supervisory functions.

xii. The cooperatives governance structures are captured by political interests, so there is a need to exercise authority to revoke administrators or limit the involvement of political agents in the boards of financial services cooperatives.

An additional aspect to keep in mind is that SES officials do not have protection mechanisms for their employees. For example, the Basel Committee on Supervisory Principles stipulates that supervisors should be protected when facing legal proceedings for actions taken in good faith and in discharge of their functions. For this reason, providing legal assistance to supervisory officials is a sound practice for the development of the cooperative sector, since not having these safeguards could foster significant risks with respect to the objectivity and impartiality of decisions that within the scope of their competence should be taken, while at the same time weakening the attainment of the missionary objectives provided for in the laws.

On the other hand, although the SES has good surrender mechanisms, it is necessary to continue encouraging to create a space for dialogue between the Superintendency officials and users of the cooperative sector, with the objective of creating transparency, trust conditions between Entity and consumers and guarantee the exercise of social control to the administration, also serving as an input to adjust projects and action plans and develop mechanisms of direct communication, which allow to know the expectations and rights of citizens in front of the entity and This way to solve the failures that can be presented to the interior of the same one. This topic is touched on in more detail below.

4.2 Normative parameters

The experience gained in the last local financial crisis offered the opportunity to develop a financial regulation and a model of banking supervision that have contributed to the current solid position of the Colombian financial system. Thanks to the prudential criteria developed in the regulations concerning Risk Management Systems (SAR), credit institutions have had greater strength and room for maneuver to cope with the economic contraction resulting from the international financial crisis.

The prudential regulations for the banking sector, agreed in the Committee of Banking Supervisors of Basel, have meant an important effort by the financial supervisor to adapt to the national regulations to implement the complex regulatory changes of great importance that have been developed to Over the last few years, prior to the financial crisis of 2007. These changes translated into the SAR regulations have also had a high level of demand for the entities in terms of organizational, personal and technological resources.

Supervisors need not wait for the formal adoption of Basel II or Basel III to begin to introduce or use the three-pillar or capital principles. On the contrary, it is necessary to incorporate these principles into the regulation because it is an excellent preparation for the full adoption of Basel II or Basel III.

In Colombia, the SAR regulations have largely determined the behavior of the entities, constituting a continuous improvement in the management of the risks faced by credit institutions, and has allowed the managers to know better the business and operation of the entities, And that they can better control the risks they incur.

In the early years of the decade (2002 and 2003), initial efforts focused on the treatment of credit risk and, specifically, the development of the SARC and initiatives for the development of internal models (IRB, English of Internal Rate-Based Models), in the belief that the move towards such models could be the natural path for all entities. These initiatives focused on:

A. Use the reference models of the SFC

- B. Develop models internally (which should be non-objected by the SFC)
- C. Use a combination of the two previous methodologies

Contrary to the initial belief that most credit institutions would opt for IRB models, time has been shown to demonstrate that several entities have built internal models that have not gone through the supervisor review and that the models are applied Of reference for the different segments or types of risks and support to the supervisory requirements. This reality reveals that entities use their models to make better decision-making in the concession of operations, to optimize their investment processes, or to improve credit tracking.

In this sense, it is a clear objective for the supervisor of financial services entities to promote the presentation of internal models by the supervised entities, without sacrificing relevant aspects (qualitative and / or quantitative) within the supervision process to achieve this. In this way it is important to have a common regulatory framework that includes general aspects applicable to all types of financial risks and particular sections for each type of risk depending on their specialty, avoiding the disintegration currently contained in the SFC SARs.

The cooperative sector that provides financial services needs to have a common regulatory framework in risk management (Credit, Market, Operative, Liquidity, Money Laundering and Terrorism Financing), as well as an Internal Control framework that systematically controls and guarantees the Good operation of all previous systems, all of which should include:

A. General aspects applicable to all types of risks:

i. Scope of application: Risk management systems (SARs) should apply to all financial services cooperatives subject to inspection, monitoring and control, in all processes that they develop, and according to the structure, size, risk profile and Complexity of operations.

ii. Develop the definition of Stages for risk management:

Identification
Measurement Control
Monitoring

iii. Develop the definition of Elements through which the administration of risk is organized and methodically organized within an entity:

Policies
Procedures.

Documentation.
Organizational Structure
Control Bodies
Technological Platform
Disclosure of information
Training

B. Particular sections for each type of risk depending on your specialty:

- i. Reference Models
- ii. Internal risk quantification models
- iii. Internal Control System (SCI)
- iv. Corporate governance
- v. Consumer Care System (SAC)

C. Main advantages of implementing the single SAR for the cooperative financial services sector:

- i. Greater commitment on the part of the top management: cultural change
- ii. Greater discipline in the management of the information (BBDD, procedures, documentation, reports).
- iii. Improvement in data quality.
- iv. Better knowledge of business and risks
- v. Better use of information and greater capacity for decision-making
- vi. Competitive advantage

D. Most frequent concerns:

- i. Incentive Scheme: In certain cases comparing the IRB with the reference models, there would be no incentives in terms of saving capital
- ii. High cost of maintenance and improvement of models and BBDD
- iii. Scarcity of specialized human resources in the market
- iv. International comparison and rating by rating agencies

In the other hand, it is necessary to develop rules regarding classification and provisions for credit risk in line with those established for credit institutions and in this same sense, to revise the capital structure according to the most recent prudential framework that includes some stricter specifications, in line with the regulations developed on instruments admitted nationally.

In addition, credit institutions are adapting and reforming the information in their financial statements to the new international financial reporting standards (IFRS) and the new capital standards (Basel III), and the supervisor is trying to the administrative burden that credit institutions have to bear is as small as possible. This implies that the SES should accelerate the steps to have staff trained in IFRS and formulate an action plan with the agencies of the sector to bring financial services cooperatives to these standards and include in their technology plan the new adaptation needs of transmission of information in the new scheme.

It is a fact that the failures of internal control appear as one of the main causes of the greater losses of the entities, reason why it will be necessary to strengthen in the cooperatives through regulation the qualitative aspects covering the design of policies and procedures that guarantee the independence of the role of risk control, management information systems, database quality, documentation and independent, timely and appropriate review of control systems.

Finally, the risk regulation and supervision model is intense in terms of continuous monitoring of policies, practices and risk management in financial service providers, which, is reinforced by periodic inspection visits. However, this characteristic must be clearly defined at the head of the Superintendency, and regulatory arbitration should be eliminated, which makes it easier for Fogacoop to carry out inspection tasks before the supervised ones, because there can be no concurrent supervision that creates gray areas in certain supervision.

4.4 Monitoring model

The optimization of the supervisory model refers to the successful implementation of the "Core Principles for Effective Banking Supervision", including provisions on the operational autonomy of the supervisory authority, sufficient supervisory resources, regulatory and corrective powers, and a legal framework Clear. It also establishes a sound basis in the supervisory system, where legal and accounting regulations are an essential step in the process of transition to the new supervisory framework.

Develop a risk supervision system does not consist exclusively of having a follow-up process based on mathematical models and a computational system. The basic elements of this system go far beyond the model itself and range from the power sources of the model to the correct interpretation and use of its results. The measurement system is only a relevant component but not the most important in the creation of an effective risk monitoring system that is in line with the needs of the SES and the best international practices on the subject; The following are schematically presented the methodological elements necessary to advance the supervision in an appropriate way, these are:



Conceptual aspects:

- General Conceptual Documents
- Specific Conceptual Documents

Normativity:

- Unified SAR for Credit, Market, Operating, Liquidity
- Reference Models
- corporate governance
- Internal control

Monitoring Tools:

Supervisory process:

- procedures and activities
- Supervisory Guides
- Systematization of supervision guides

Instruments for risk analysis:

- Institutional files
- Risk Reports
- Risk Matrix

i. Conceptual Documents:

They are divided into two categories; The first, is the general concept documents, which develop various aspects reflected in the regulation, academic documents, international standards and

existing best practices of supervision. These documents tend to set policies and guiding principles contextualized to the reality and needs of the supervisor.

In the second category are the specific conceptual documents, also known as "framework documents" which, while also addressing aspects covered in regulation, specialized literature, international standards and best practices, focus on the guidelines and purposes of the supervision on specific risks and issues that are identified by the supervisor as supervisory objects.

ii. Normativity:

Are the legal provisions issued or promoted by the SES to regulate a certain risk or thematic. In general terms, they instruct, regulate specific topics or, adopt risk management systems, these rules include generic aspects, which as its name refers to instructions and general definitions on the subject treated; The qualitative aspects refer to guidelines on risk management and control; and, the quantitative aspects will refer to methods of calculation and measurement of the risk or thematic treated, it is in this section in which the respective reference model is usually included.

The reference models are mathematical algorithms and standardized standards through which the supervisor instructs its supervisors on the method of calculation and measurement of a specific risk, which must be used in a uniform way by all the entities to which it applies. These models contribute to establishing a homogeneous direction for the monitoring and supervision of the respective risk and to avoid regulatory arbitrations. It is also intended to encourage entities (which consider the reference model to be unfavorable) to propose, sustain and request approval of their own models (internal models).

iii. Monitoring Tools:

The construction of a process of supervision by risks includes both the way of carrying out supervision and the way of evaluating the entity. For this, it is necessary to design and build a process that is composed of procedures and activities, not all of them sequential, from the collection of information and its analysis to the monitoring of the supervision measures given, with the objective of permanently evaluating the condition of an entity.

The basic supervision guides are documents that provide the minimum aspects that must be considered to deal with the supervision of a certain risk or thematic.

The structure of the possible guides can adopt the following structure:

- Objectives of the evaluation
- Relevant monitoring topics
- Scheme and general supervision procedures
- General criteria for acceptance of internal models (when applicable)
- Rating parameters

The systematization of supervision guides In Situ / Extra Situ provides efficiency in the preparation of supervision reports and minimizes the loss of information, which is why systematization is done by acquiring or developing technological tools to manage, standardize and optimize Monitoring activities.

Therefore, all institutionally adopted guidelines should be incorporated in such applications to facilitate their use, monitoring, generation and comparison of results. In order to guarantee its adequate application must be carried out institutional training to the officials of the user areas that require it.

iv. Instruments for risk analysis:

-The "institutional card" is the descriptive document of the most relevant aspects about the entity, which involve:

- Formation of the Group
- Business and products profile
- Management of the governing bodies
- Financial information
- Evolution and risk management
- Perception of the entity and the group

Risk reports are comprehensive reports on the situation of a specific risk; Involve information collected through supervision extra situ/in-situ according to the guidelines developed for each risk, and are prepared by the risk groups for consideration by the Supervisory Director, so that, together with the general supervision groups they unify concepts and perceptions of risk to orient in an executive and prospective way the supervision carried out on the entities supervised by the Superintendency.

The risk matrix is the graphical summary of the consolidated risk analysis for an entity. It involves an exercise of risk analysis and control for each significant activity of the entity. This analysis should be developed in accordance with uniform criteria that allow meaningful comparisons between entities or sectors and build a strategic map that allows monitoring activities to be focused.

In the same sense, the supervision model must verify that the risk management model is integrated into the day-to-day management of the entity, forming part of the culture and processes of the risk management of the cooperative. In the entities that decide to elaborate their internal risk models, it is essential to verify the effective implementation in the daily risk management and it is necessary to create a guide for the non-objection of the use of these models for regulatory purposes. This is what is called the use test.

The implementation of risk measurement models integrated in the management implies an important cultural change in the entities that can only be carried out with the conscious decision and the direct support of the highest instances, especially taking into account the cost of the resources that are necessary to dedicate.

It should be clear to the supervisor that the board of directors and senior management of the cooperative entities is the one that should drive the change, and that it is not a mere regulatory compliance work carried out by any specialized area, without being assumed by the organization as a whole.

The supervisory model requires that entities have independence between the business areas and those that control the risks, and both with the internal audit.

The business units are responsible for taking and managing risks within the limits established in a decentralized manner and requires an independent review of the risk measurement process, as well as the established management processes are appropriate with the objectives and business strategy of the entity.

The independent risk control unit should be in charge of centralizing the follow-up of the policies established by the senior management to take risks. Risk approval procedures should be well defined and homogeneous in all risk-taking units.

On the other hand, the supervisor must evaluate the adequacy of the internal control system implemented being essential to examine the information flows between the different areas involved in order to verify their effective use and to know the role that each person is playing in management and control of risk.

4.5 Information system

The implementation of the risk supervision model may require a redesign of the technological environment and information systems to enable its effective use and guarantee the content of all relevant information. In the same way, it should be considered that not only the storage needs of large volumes of information in historical databases, but also the generation of analytical tools that complement or reinforce the implanted analysis systems.

The existence of an efficient information system is fundamental for the operation of the supervisor to the extent that it has the following elements:

- i. An orderly and standardized set of information to meet the needs of all areas of the SES;
- ii. Clear rules for requesting information from entities within the cooperative system and other institutions;
- iii. Technological systems and adequate criteria for the reception and validation of the information;
- iv. Instruments, guidelines and processes for the transformation of said information in the generation of reports and systems of indicators of regular generation and agile consultation for the SES and the other agents interested in the cooperative sector;
- v. Tools for monitoring and on line analysis of inspection processes;
- vi. Flexibility and friendly functionality, allowing its use to all users of information.

On the other hand, it must be kept in mind that for the purposes of implementing and reviewing the system of measuring for any risk, the difficulties in setting up databases differ depending on the risk involved. Thus, in the case of credit and operational risk, modeling the behavior of risk factors is much more complicated than in the case of market and liquidity risk.

The difficulties are presented in the information available in the databases in terms of quality, mainly because they are incomplete or inconsistent, and traceability, understood as the possibility of identifying the sources from which the information comes.

Therefore, the supervisor must establish very strict requirements regarding the collection, storage and classification of information, as well as the observation period to be taken into account in estimating the risk factors, which in general, usually requires five Years as a period of historical observation, although

correct modeling requires long-term estimates, that is, that it can be considered a complete economic cycle.

4.6 Mechanisms of communication

The Delegation for the Supervision of Financial Activity should structure an action plan of information inside the SES, in order to disseminate the new scheme of supervision and regulation for risks to be implemented in relation to the current monitoring model.

Likewise, it will have to establish the mechanisms of communication with the monitored entities that allow the diffusion of the new scheme of supervision by risks, as well as the regulation of risk management for the cooperative sector.

In addition, the Superintendency should establish mechanisms of communication with users of the cooperative of financial services sector, referring to the new regulatory elements that will be applied to entities, and how SES will ensure better practices in the industry against risk management.

It will be necessary for the Superintendency to tighten mechanisms of communication with other entities of the State, in order to disseminate its new risk supervision system. The above, in order to nourish the supervisory process with information from other governmental entities.

The Delegate for the Supervision of the Financial Activity should establish the mechanism of communication towards state control bodies, in order to disseminate its new risk supervision system. This aspect is crucial, since the traditional approach of these organizations is strict compliance with the rules, which is in conflict with the risk-based supervision scheme and the supervisor's risk taking.

The Delegate should establish the mechanisms of communication to the media, including social networks, which will have great relevance for the defense of the rights that assist the users of the cooperative sector of savings and credit. This aspect is crucial in order to mitigate the reputational risk that the SES could have from the requirements of a new credit risk management system.

The Superintendency must ensure the publication and access of information on the objectives, procedures, programs and supervision activities to the monitored, as well as the detail of the expenses and income of the supervision work.

4.7 Structure and Supervisor career

A first aspect to be defined by the competent bodies is to renew the organizational structure of the SES to address the changes proposed in the supervision and regulation schemes.

From the administrative point of view, while the SFC has an average of fifty (50) officials in any of its Supervisory Delegations, SES has approximately twenty-four (24) officials in total who perform extra-situ

analysis, On-site inspections, compliance checks and legality of constitution and reforms, prior authorizations, decentralized supervision, forced liquidations, voluntary liquidations, citizen interaction, administrative investigations, among others, which indicates that in their missionary tasks a high load of tasks per official .

In this way, the optimization of the supervision scheme for SES requires a more robust administrative structure to adopt the best practices of the global financial industry in terms of risk management, and therefore we propose a modification in line with models tested at international level.

The Delegate for the Supervision of the Financial Activity could be internally conformed by:

- Office of the Delegate Superintendent
- Three Superintendents of Supervision
- Legal Group
- Special Issues Group

Two of the intendancies would be "integral supervision and coordination", that is, they are in charge of obtaining the complete vision of the cooperative entities of financial services from their financial situation, corporate governance, internal control and risk management, as well as the respective controls by the law. The supervisors of these two intendancies are generalists, in the task of extra situ/in situ they are the direct interlocutors with the entity, and in the on-site inspections they have a head of visit and they determine the general and specific objectives of the inspection visit.

Among the main functions of these intendancies would be:

- To support the Superintendent in setting and designing supervision policies and ensuring that these are complied with within the entity, seeking transparency, homogeneity, efficiency and technical reasonability;
- Establish the criteria for the application of early correction rules, based on financial indicators and risk reports, and for the adoption of precautionary measures, ensuring their uniform use;
- Elaborate the annual program of visits to the monitored entities in coordination with the other supervisory authorities, ensuring that the objectives of consolidated supervision and risk are met, and addressing the most vulnerable systemic and individual aspects;
- Carry out the preparation and presentation of the visit reports, and follow up on the sanctioning processes advanced by the entity.

The third intendancy would be "risk analysis", that is, the one in charge of applying risk supervision processes and methodologies, in order to provide the other two intendancies with the qualification and risk

profile of the supervised entities, which should be for the two other supervisory areas of the Superintendency.

Among the main functions of this intendency would be:

- Identify, measure, and monitor the risk of credit, market, liquidity and operational in accordance with legal provisions;
- Identify the structure of the cooperative economic groups and define the operations between the parent companies and related companies that make them
- To elaborate studies on the risks associated to these groups, to measure the increase of the systemic risk by contagion to the group and to measure the conflicts of interest at the individual and consolidated levels;
- Analysis and evaluation of concentration of risks of economic sectors, customers, both for the loan portfolio, and for the portfolio, at individual and consolidated level;
- Advise and carry out studies, analysis and research on economic topics of interest
- The others that are assigned according to the nature of the area.

In addition, it is necessary to separate the functions of the Planning and Systems Advisory Office because they are two areas that handle different issues and require greater specialization to carry out the proposed model. In this way a "systems office" should be made up of a "technology area" in charge of planning, designing, directing and controlling the ICT projects and plans of the entity, as well as ensuring the operation of computer equipment, communications and The contingency plan in accordance with the Entity's technological evolution; The other would be the "information systems area" in charge of performing the analysis, design, programming, documentation, implementation and maintenance of the information systems required by the Entity.

As for the "planning office" could be formed by a "group of organization and methods" in charge of directing and coordinating the planning, assessment and evaluation of the processes, as well as the preparation of the necessary documentation for the elaboration of the strategic plan of the Superintendency; and a "group of processes" in charge of coordinating and proposing the procedures of the processes necessary to carry out the functions of the Superintendency.

A second aspect that has a notable impact on the most dynamic development of the Superintendency is the difficulty of having trained personnel to adapt, to the rhythm and depth required, to the changing conditions of the environment. The underrepresentation of staff presented by the Delegation for the Supervision of Financial Activities, together with permanent staff, insufficient remuneration, possible interference with the appointments and inheritance of older staff members, generally lacking specialized training and preparation only for compliance supervision, are the main obstacles that still remain to be overcome in order to raise the professionalization technique of cooperative supervision and bring it into line with the demands of the moment and the future that is intended to be carried out.

The specialization required by the risk supervision model makes it necessary to have a group of supervisors who exercise their functions with a high degree of experience in quantitative issues and knowledge in risk management, while at the same time having the necessary conditions to develop Monitoring activities. From the experience observed in different financial supervision agencies that carry out risk supervision, there are two basic recommendations for the formation of a group of supervisors. The

first one, is to have a staff that allows the preparation of good risk analysis and, second, dispose staff with good experience and common sense.

If the Superintendency has the possibility of incorporating new personnel it must take advantage of it, to become multidisciplinary professionals who form a risk assessment group that supports the general supervision staff and as they leave the institution can be replaced by them.

The SES General Secretariat, through the human resources area, should allocate resources from the annual budget to train the staff of the Delegation for the Supervision of Financial Activity, in matters related to supervision, risk management and internal control techniques. This effort must be permanent, to generate a sustainable impact over time.

As part of the training, the Delegation for the Supervision of Financial Activities should encourage the establishment of internships in local or international entities that have systems of management the risk in place and carry out risk supervision. This is a common practice in top-tier financial supervisors in other jurisdictions.

5. Impact in time and resources of the implementation of the recommendations of this document.

New Supervision and Regulation System Based on Risk.

In the consultant's view, a supervision scheme based on risk should be implemented in the following chronological order and time frames:

1. Normative Development of all SARs, including SAC and ICS. This work can take from 18 to 24 months.
2. Detail design and implementation of the new structure proposed for SES, adequate to the new structure of risk management rules described in the previous numeral. This process can be overlapped with the previous one, from the first year of standards design and for a total space of 24 months. However, the process of adaptation of the officials to the new scheme can be significantly greater, as happened in the SFC where the process took to consolidate between 3 and 4 years.
3. In parallel to the above, the entities must implement the SARs, the SAC and the SCI, so that regulation and new model of supervision come into operation on time. Depending on the complexity and size of the entity, the adoption and adjustment process may take up to 1 year.

In terms of costs, the development of the new regulatory framework and structure for the SES could have an approximate value of USD 2 millions. The cost of developing SARs, SCIs and SACs for entities is usually between USD \$100,000 and \$200,000 for small-medium-sized entities, and USD \$300,000 to \$500,000 for large entities, not including in that cost The development of internal models.

Adoption of the Open and Closed Cooperative Scheme

A. Savings and Credit Cooperatives.

The minimum social contributions until July 2013 are \$1,095 millions. Currently, there are 15 of 183 CAC below that minimum. Among the CAC, the participation of the commercial portfolio is as follows:

CAyC with participation less than or equal to 5% = 133 of 183 (73%)

Between 6% and 10% = 12 of 183 (7%)

Between 11% and 20% = 12 of 183 (7%)

Between 21% and 50% = 12 of 183 (7%)

More than 50% = 14 out of 183 (8%)

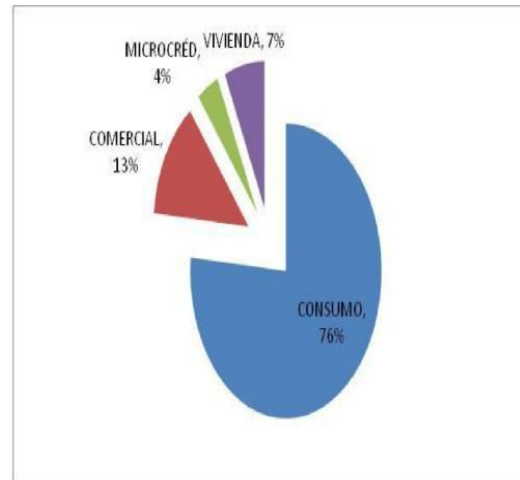
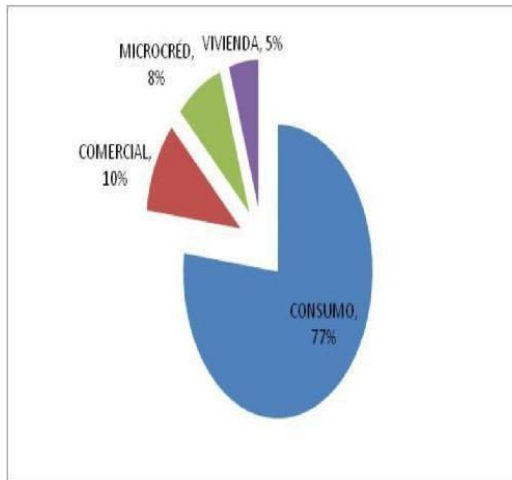
In this context, it is foreseeable that those with a commercial portfolio of more than 21% consider the possibility of becoming open-link cooperatives. Of the CACs with participation of commercial portfolio between 21% and 50% (12 of 183, equivalent to 7%), there are 8 that exceed the minimum contributions to be considered Financial Cooperatives, for which the minimum social contributions correspond to \$3,267 millions. Of the current CACs, there are 72 of 183 below that minimum.

On the other hand, of the CACs with more than 50% of their total portfolio invested in commercial portfolio (14 of 183, equivalent to 8%), there are five that exceed the minimum contributions to be considered Financial Cooperatives.

It is worth noting that the structure of the portfolio of CACs and Financial Cooperatives is very similar, as can be seen in the following graph:

Structure Portfolio CACs

Portfolio Structure of Financial Cooperatives



This not only reinforces the conclusion that CACs must have a similar treatment in normative terms, taking into account the principle of "same business, same risks, same rules", but also, allows to foresee a migration of some CACs to the open link scheme, Under the supervision of the SFC.

However, of the 183 CAyC, there are 26 that have social contributions above the minimum of the Financing Companies, equivalent to \$ 19.465 million. However, of these 26 there are 18 that have a portfolio share of less than 5%. Finally, there are 4 CACs that exceed in social contributions the minimum capital required to be a Bank.

B. Mutual Associations

39 Mutual must dismantle the savings and credit operations to comply with the condition to continue operating as CAC, with a current minimum capital of \$ 1,095 million.

C. Employee Funds

There are 226 Employee Funds with contributions lower than the minimum to be Savings and Credit Cooperatives corresponding to \$ 1,095 million. In fact, there are 1006 EF with contributions of less than \$550 millions. In general, since they are not obliged to have a solvency calculation, the capital of the EF are small.