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# Kazakhstan expands central bank's supervisory powers – good or bad move?

More than 10 years have passed since the 2007 financial crisis, but Kazakhstan's financial sector still has not overcome its structural weaknesses, particularly in the banking system.

Firstly, some Kazakh banks apparently still widely employ the practice of giving loans to de facto affiliated persons of either the shareholders or the bank's management.

Secondly, the unwillingness of the banks' shareholders to inject additional capital into banks leaves the whole banking system of Kazakhstan open to the risk of under capitalization.

Thirdly, there was substandard regulation and supervision of the financial sector, because the NBK has historically been criticized for being reactive and generally being ineffective when it comes to supervising financial institutions. As a result, in 2018 alone, three banks were deprived of their licenses by the NBK which asserts that these three banks carried out high-risk policies and had a significant share of dangerous loans. To address the aforementioned issues, a law has been adopted beginning from the 1st January 2019 which introduced risk-oriented supervision over, inter alia, banks and insurance companies.

The central element of the new supervision model is the so-called 'reasoned judgment' of the financial regulator on the quality of assets, cohesion of the financial institution's entities, the business reputation of executive staff and shareholders and the quality of the risk management system as a whole. The NBK is now guided, in particular, by forward-looking supervisory principles, ie the financial regulator aims to preempt or address the poor conduct of Kazakh financial institutions, so that risks and any associated harm do not materialize, or if they do, they do not cause significant harm to consumers or the financial market. Interestingly, the financial regulator's toughened stance has already sparked displeasure among some supervised entities and there are strong concerns that some officials of the NBK may misuse new legal tools they now have to get rid of financial institutions that have fallen out of favor with them.

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