

DeLisle Worrell: Risk and efficiency

Opening remarks by Dr DeLisle Worrell, Governor of the Central Bank of Barbados, at the Regional Central Banks Information Systems Specialists (RCBISS) Annual (XXIII) Conference, Bridgetown, 3 June 2013.

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Today I want to celebrate with you an outstanding success story of Caribbean regional integration. For over two decades information specialists from central banks from across the region have met like this, to network among yourselves, share common experiences and take advantage of each others' expertise. Similar networks now exist in almost every sphere of central banking activity in the region, to such a pervasive extent that we now take them for granted. We should commend ourselves on this achievement, and seek to use our networks ever more effectively, in attaining the objectives of our central banks.

That is what this conference is about. How do we use the opportunities which new technologies offer us to deliver central banking services as efficiently as possible, without exposing the banking system to unacceptable levels of risk. We need to pay attention to all the elements in this statement.

We should always bear in mind that the ultimate goal is to make our central banks more efficient in providing the services which are our responsibility. Meetings like this one are an opportunity to ask ourselves how well we are performing in this regard. Are our technologies being used to provide faster and more efficient banking services for the government, the commercial banks and other financial institutions that we hold accounts for? Are our transactions in government securities, foreign currencies and securities, and other financial transactions increasing in efficiency as we improve our technologies. Are we able to bring information more effectively to bear in the formulation of economic policy? And are we communicating more clearly and persuasively to the general public, with cogent analysis that is fully backed up with relevant data? Is our oversight of the financial system keeping up with the world's best regulatory guidance? The answers to these questions will tell us how effective our information technology strategies have been, and how we might need to adjust our strategies in pursuit of further gains.

The second part of my statement above refers to maintaining risks at an acceptable level. The management of risk is a very complex matter, and I can make only a few observations about it in this morning's address.

First we have to determine what is an acceptable level of risk. That depends on the cost of the risky event, at every level of risk, and the availability of insurance against that risk. There is a nontrivial risk, every time you go out in your car, that you will become involved in an accident. That doesn't prevent us from driving our cars, even though the cost of an accident may be considerable, because we have insurance.

Secondly, we have to consider the impact of risk minimisation on our efficiency. We can minimise the risk of damage to our car by using it as little as possible, and taking the bus to work and school. Not many Barbadians are persuaded that is an efficient thing to do.

Thirdly, all of us have incorrect perceptions of risk. Most people don't realise that the risk of being murdered is actually lower than the risk of dying in a car accident, almost anywhere in the world. And even statisticians who are aware of it don't derive any particular reassurance from that knowledge.

Fourthly, there are the risks we cannot know. On CCTV on Saturday evening I watched an animated debate between experts on either side of the debate about genetically modified foods. The truth of the matter is that the current generation of genetically modified foods has not been around long enough, in sufficiently widespread use, for us to know what the long term effects might be. The same is true of prolonged use of cellphones and computers.

There are more technical imponderables with respect to the measurement of risks that cannot be readily explained in a short speech. For those who have an interest, I can recommend the excellent book "The Black Swan" by Nassim Taleb, which I reviewed for the Central Bank's Economic Review, available on the Central Bank of Barbados website.

The complexity of the IT security challenge is aptly illustrated by an email members of the Barbados Information Society received from the late great James Corbin, just before his tragic death. In it he reported that computer power was now available to uncover even the most secure password, by a massive process of iteration, in shorter times than we would have expected. Does that mean we should not have secure passwords? Absolutely not; we should be as secure as is reasonable, using numerals in combination with upper and lower case letters. But I, for one, will not henceforth ever compose a password that is longer than is called for by the programme or service I am using.

In view of the complexity of the issues, and the number of unknowables, what we may expect of a meeting like this one is a thorough exploration of the issues, rather than definitive answers. The world we live in is increasingly complex, and things are changing all the time. In order to do well in the modern world, we have to cope with uncertainty as a way of life. We must develop the insights that help us to adapt our strategies in light of changes, in order to keep in sight our goal of greater efficiency in everything we do.