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Mr. Yaseen Anwar stresses the need for inculcating risk culture for sound management of operational risks

Mr. Yaseen Anwar, Governor, State Bank of Pakistan (SBP) has stressed the need for inculcating a risk culture within the organization with open communication channels between business lines and control functions for the sound management of operational risks.

While delivering his opening remarks at the 'Conference on Operational Risk Management' at SBP Learning Resource Centre in Karachi today, he said that SBP is cognizant of its responsibilities regarding sound operational risk management frameworks in banks. 'SBP will continue to play its role in ensuring effectiveness of the established frameworks in banks. We expect each bank to develop and continuously improve its risk management and control framework depending on nature, location, size, sophistication, complexity of business operations and approved risk appetite,' Mr. Anwar added.

Stressing the need for close cooperation between banks and SBP, Mr. Anwar said that the exchange of ideas is very important in capacity building for operational risk management. He expressed the hope that this conference would provide a good opportunity to exchange our thoughts on risk management and learn from each other's experiences.

SBP Governor, in his address, dwelt at length on three main areas of risks including Operational risk management – the issues and challenges; Basel Accord treatment of operational risk and emergence of sound principles on risk management and Regulatory developments & supervisory expectations to strengthen the operational risk management within the banking sector.

Highlighting the importance of risk management, Mr. Anwar said that the SBP will expand its existing reporting mechanism in order to have comprehensive and current information on operational risk of banks.

Mr. Anwar said that SBP has adopted a two pronged strategy for effectively addressing the issues of operational risks: i) to update the existing instructions on frauds & forgeries and monitoring in banks, ii) issuance of guidelines on operational risk data collection to enhance the scope of loss data gathering in line with the Basel Accord requirements and to provide the industry with minimum set of instructions for consistent recognition of losses and their reporting to a centralized data consortium. 'These projects are at an advanced stage of

consultations with the industry and these guidelines/ instructions will help banks improve their operational risk management processes,' he added.

SBP Governor observed that it is imperative for our banks to develop requisite capacities to manage their operational risks, collect their loss data, implement risk indicators and set aside capital to cover potential operational risk losses. 'It is necessary for risk managers to develop awareness of operational risk and effectively use the emerging management techniques,' he added.

Mr. Anwar further observed that there is a pressing need that banks modify their fragmented approach of operational risk management in favour of a much more comprehensive governance and management framework through clearly defined roles and responsibilities along with reporting procedures.

SBP Governor was of the view that those at the top of the organization should take the lead in establishing a strong risk management culture through sound internal governance. He said that the board of directors needs to regularly review the framework and ensure that senior management is actively monitoring the effectiveness of risk management and controls. 'For this purpose, the board should establish a management structure based on clear lines of responsibility, accountability and reporting. The board should set the bank's risk appetite through the approval of operational risk management policy. SBP expects that the board should seek periodic reports from management to monitor the operational risk profile of the bank in a proactive manner,' he added.

The two-day conference is being attended by commercial bankers, SBP officials, international participants and subject specialists.
