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**IMPLEMENTATION OF BASEL II: SBP DEPUTY GOVERNOR,
MR. TAWFIQ HUSAIN STRESSES THE NEED FOR
CAPACITY BUILDING IN BANKING INDUSTRY**

The Deputy Governor, State Bank of Pakistan, Mr. Tawfiq A. Husain has stressed the need for capacity building in the banking industry for the successful implementation of Basel-II.

Speaking at the conclusion of a five-day (14th to 18th November, 2005) seminar organized by the State Bank of Pakistan in collaboration with the Pakistan Banks' Association at a local hotel in Karachi today, he said the Basel-II was relatively complex and its implementation was a challenge particularly due to the scarcity of expertise in Risk Management.

He said the seminar was a build up on the earlier initiatives taken by the State Bank to prepare the banking industry for the Basel-II regime. He said the State Bank would continue to hold such training initiatives in future for the capacity building of banks.

He pointed out that the implementation of Basel-II was not just a regulatory compliance exercise as it required a robust Risk Management framework and a capital allocation process based on the risk profile of individual institutions. It should, therefore, be viewed as a business proposition, Mr. Tawfiq added.

The SBP Deputy Governor observed that for the successful implementation of Basel-II, banks need to have a comprehensive database, qualified Risk Managers with knowledge of latest Risk Management techniques, and commitment of Senior Managers / Board of Directors.

Mr. Tawfiq said the implementation of Basel-II would also impact the borrowers as the risk based pricing would compel the corporate borrowers to improve their financial standing and creditworthiness.

He thanked the two trainers namely Neil McGhee and Ash Narula from PriceWaterHouseCoopers, Australia for successfully conducting this seminar on a highly technical subject. He also offered his thanks to the PBA for its whole-hearted collaboration in conducting the seminar.

It may be pointed out that the new capital adequacy regime in the form of Basel-II offers a comprehensive and more risk sensitive capital allocation methodology for major risks faced by banks. The approach registers a marked improvement over the existing one in terms of better risk sensitivity, risk mitigation, and ability to cope with developing products. It also provides incentive to institutions to continually improve their risk management frameworks.

It may be recalled that the State Bank had announced in March, 2005 the timeframe for adoption of different approaches under Basel-II which is as under:

- Standardized Approach for credit risk and Basic indicator/Standardized Approach for operational risk from 1st January, 2008
- Internal Ratings Based (IRB) approach from 1st January, 2010.
