September 05, 2008

Strengthening of Capital Requirements for the Banking Industry To Promote Further Growth in Financial Intermediation as well as to Encourage further Consolidation: Dr Akhtar

Dr Shamshad Akhtar, Governor State Bank of Pakistan today announced to raise the Minimum Capital Requirements (MCR) and Capital Adequacy Ratio (CAR) for locally incorporated banks/DFIs as well as foreign banks in a phased manner in order to encourage further consolidation in the banking sector. These policy measures are a critical component of the Pakistan's next ten years financial sector Blue Print. This vision statement and strategy was issued at the 60th Anniversary of the State Bank of Pakistan (SBP). The new Government has supported SBP in its long term vision of the financial sector reforms.

Presiding over a meeting of the Presidents/CEOs of banks at the State Bank of Pakistan, Karachi, Dr Akhtar said that appropriate level of banks' capital is critical for the industry to strengthen the business prospects as adequate capital buffer helps raise depositors and public confidence, while allowing industry to achieve the desired asset growth in line with the growing requirements of the country.

She informed the bankers that the central bank has decided to raise minimum paid-up capital requirements for locally incorporated banks to Rs23 billion (net of losses) to be achieved in a phased-manner by December 31, 2013. In addition, Foreign Banks (FBs) operating in the country are also required to increase their assigned capital to Rs 23 billion (net of losses) within the prescribed timelines, she added.

However, those FBs, which are operating with up to 5 branches, are required to increase their assigned capital to Rs 3 billion while FBs operating with 6 to 20 branches are required to raise their assigned capital to Rs 6 billion by December 31, 2010 provided their Head Offices hold paid-up capital (free of losses) at least equivalent to $300 million and have a CAR of at least 8% or minimum prescribed by their home regulator, whichever is higher, Dr Akhtar explained.

Under the existing instructions, the banks/DFIs are required to have the MCR at Rs 6 billion by December 31, 2009. According to new instructions, the banks will have to raise their MCR to Rs 10 billion by December 31, 2010, Rs 15 billion by December 31, 2011, Rs 19 billion by December 31, 2012 and finally Rs 23 billion by December 31, 2013.

"All newly-licensed banks will henceforth be required to meet the paid up/assigned capital requirement of Rs 23 billion before commencement of their operations," she added.

Dr Akhtar informed the bankers that required minimum CAR, on consolidated as well as on standalone basis, has also been increased for banks/DFIs to at least 10%. She also announced that all banks are required to maintain variable CAR, which will now be based on CAMELS-S Rating assigned by the State Bank to each bank/DFI. Those banks/DFIs whose CAR falls short of the required ratio are advised to meet the shortfall latest by December 31, 2008, she added.

SBP Governor said that the required MCR and CAR can be achieved by banks/DFIs either by fresh capital injection or retention of profits and added that the stock of dividend declared after all the legal and regulatory requirements, will be counted towards the required paid-up capital of the bank/DFI pending completion of the formalities for issuance of bonus shares.

"We are trying to push for consolidation of the banking industry, and to encourage second-round of mergers and acquisitions," Dr Akhtar told the participants. Further consolidation is necessary to ensure presence of stronger and well capitalized banks that can support diverse financial services and client requirements, while adequately managing risks, she said.

Dr Akhtar also elaborated 10-Year Vision & Strategy for the Financial Sector with the participants and focused on issues pertaining to Deposit Protection Scheme, Consolidated Supervision and Minimum Capital Requirement.

SBP Governor welcomed the Bankers feedback on the blue print for a Deposit Protection Scheme (DPS) to protect small depositors. She said DPS increases depositor confidence in banking system and comforts small savers and helps the competitive position of small private banks in relation to large banks or government owned banks. She said that the proposed DPS will be in line with the best international practices.

Dr Akhtar said that as a part of supervisory reform agenda, SBP will be moving towards consolidated supervision system in compliance with Basle Core Principles. To allow for this appropriate structural change in financial sector, regulatory architecture would be required and legislated for which Banking Companies Ordinance, 1962 is also in the process of being amended, she added.

At the conclusion, Dr Akhtar stressed upon the banks to reduce banking spreads which are 'high' as compared to countries in the region. Banks pointed out that lending rates for corporate sector were relatively low but higher in other sectors as they factor in the risks associated with the businesses. At the same time, she asked the banks to closely monitor rising Non-Performing Loans and to keep them in line with international standards. She also emphasized that banks should work diligently not only to increase their deposit base but also increase deposit rates for the benefit of the customers. She also urged the banks to explicitly publicize real and effective deposit rates while mobilizing such deposits.

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