

## **M R Pridiyathorn Devakula: A brief comment on credit risk analysis**

Opening address by Mr M R Pridiyathorn Devakula, Governor of the Bank of Thailand, at the APEC Financial Regulators Training Initiative Regional Program - Credit Risk Analysis, Bangkok, 26 August 2002.

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Distinguished Guests,

Ladies and Gentlemen,

It is a pleasure for me to be here at the opening of the Asia-Pacific Economic Cooperation (APEC) Financial Regulators Training Initiative Regional Program on Credit Risk Analysis. The Bank of Thailand is indeed privileged to have the opportunity to host this distinctive event initiated by APEC. I also wish to personally extend a warm welcome to all the participants and to express our deepest appreciation to the distinguished speakers who have kindly agreed to come to share with us their knowledge and wisdom on various aspects of credit risk analysis.

Needless to say, amongst other risks, credit risk or the possibility that a borrower will default, represents a key risk in the banking business. The example of the Thai financial system where roughly 400 billion baht of non-performing loans, commonly known as NPLs still remains since the 1997 financial crisis shows the painstaking effect of credit risks at the national level. Global trends along with advance technology and financial innovations have further added complications to the matter by enabling financial institutions to change their activities and risk profiles at a speed and scale which could not be imagined a few years ago.

These developments have spurred the necessity of our having to better understand and perform more analysis on banking risks. After all, banks do live and prosper by accepting risks, but these risks have to be managed with proper care. As we have all seen, well-managed banks have tended to stay resilient to the banking crisis and provided a backbone for restoration of financial stability. We must therefore, continuously adopt new techniques and technologies in risk analysis to ensure appropriate risk management of all financial institutions in the future. Of course, prevention is always better than the cure.

As financial regulators, one of our main tasks is to provide a prudential framework ensuring the overall improvement of risk management of financial institutions. In the case of Thailand consolidated supervision as well as prompt corrective action will be introduced under the new Financial Institutions Act. Study is also on the way to prepare ourselves for the implementation of the BIS New Capital Regime, and we look forward to their conclusion for an explicit framework that will complement our current practices where we ask the Board to understand the nature of their organization's business activities and risk appetite in order to provide an adequate internal control system to monitor and mitigate risks. Risk-based supervision represents yet another endeavor to tackle the effectiveness of risk management of financial institutions as transaction testing may no longer be an effective approach to examine the ever-more complex financial institutions of today.

I must therefore, commend APEC for this initiative in bringing together bank supervisors across countries within the Asia and the Pacific region to learn and to share views and wisdom on this very important topic. It is my hope that all of you would take this opportunity to learn as much as possible from our highly experienced and knowledgeable speakers as well as from one another on the key issues relating to credit risks, but most importantly to reinforce supervision standards in order to enhance financial stability under your jurisdiction.

Ladies and gentlemen, I am pleased to declare open the APEC Financial Regulators Training Initiative Regional Program on Credit Risk Analysis. I wish you every success and a pleasant stay in Bangkok.

Thank you.