Tanya Sirivedhin: The New Capital Accord and E-Banking

Opening remarks by Mrs Tanya Sirivedhin, Deputy Governor of the Bank of Thailand, at the FSI Workshop for SEANZA's Forum for Banking Supervisors, Chiang Mai, Thailand, 3-7 December 2001.

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Distinguished Resource Persons and Participants,

Ladies and Gentlemen:

I would like to take this opportunity to personally extend a warm welcome to everyone here today, and to express our deepest appreciation to our distinguished speakers and panelists who have kindly agreed to share with us their knowledge and experience concerning the New Capital Accord and E-Banking. I would also like to thank the Financial Stability Institute of the Bank for International Settlements, for their efforts in co-hosting this workshop on frontier issues.

As is well known, the New Capital Accord is scheduled for implementation in 2005. Reflecting comments on the second consultative package, the draft third consultative package is scheduled for release early next year. Judging from the comments submitted in May, the new draft promises to be interesting and controversial. This is not surprising since it will mark what will be no less than the beginning of a worldwide revolution in the way financial institutions are managed, and especially how risks are supervised. The sophistication that comes with enhanced risk-sensitive capital charge should be an important incentive to drive financial institutions around the world to upgrade their expertise, organizational structure, database, IT system, and most of all their risk management process.

Speaking from Thailand's own experiences and limitations, we realize that both planned and unforeseen challenges will mark our path towards eventual compliance. As such, we have taken some initial steps to check the readiness of financial institutions to conform to the credit risk guidelines under the New Capital Accord. A full impact analysis will be conducted next year. Going some way to prepare for the more sophisticated methodology embodied in the New Capital Accord's treatment of credit and operational risk, we are requiring, as a first step in the same spirit, that financial institutions calculate market risk capital charge in 2002. Actual capital requirement will be made, tentatively, in 2003. Although the complexity of credit risk and internal rating approach will add new difficulties even after market risk is mastered, we believe this step will serve to focus the attention of top management of financial institutions and supervisors, ensuring they will stay alert to other complexities that follow.

In this connection, we would like to take this opportunity to thank Mr. Roland Raskopf and Mr. Jason George, who last October were kind enough to give Thailand's banking community excellent, and much appreciated, presentations on market risk, after which we received many calls from awakened private bankers for advice on how to plan the adoption in their banks.

I should also like to take this opportunity to express our appreciation to Mr. George, who spent three years at the Bank of Thailand as consultant to help us build up our supervisory capacity. Among other things, he helped to guide us and our banking industry through several hundreds of pages of New Accord documents. You should be proud that many of our people continue to refer to your advice and work standard which challenge us to tackle our own regulatory framework. Indeed, both of you have been an inspiration, and we expect you to do at least that in this coming week.

Ladies and Gentlemen,

Our common goal is to devise a comprehensible and methodical road map through a steep learning curve, in order to build up risk management expertise. This will place us on a sound footing, necessary for meeting the challenges of credit risk models in the Internal Ratings Based, or IRB, approach. Therefore expertise and database concerns remain formidable tasks toward IRB compliance.

Although there is no need for me to say this, given the credentials of this audience, the New Capital Accord is quite daunting for regulators. But fortunately, or rather unfortunately, depending on how one looks at it, globalization and technological development mean that none of us are alone in this journey. This seminar is an important testimonial to the case in point. It is with great hope and expectation that through cooperation, pitfalls will be avoided, and success only a few policy measures, studies, committees, and sub-committees away. This reflects the new emphasis on supervisory coordination. Once the system is up and running, supervisory coordination in terms of exchange of information, say on risk model validation, will also be crucial. For this reason, seminars such as this also serve to build useful networks.

Ladies and Gentlemen,

Let me turn now towards the second topic at hand, the issues surrounding new technological development, that is, E-Banking. Indeed the key driver of the financial landscape in the past decade has been technology. Innovations, both in finance and IT, have changed the boundaries of financial institutions' businesses, spurred vertical as well as horizontal integration in financial industry and related industries, increasing the numbers of mergers and acquisitions, and in turn, revolutionized the regulatory boundary conceptually and geographically. In short, the definition of what is a financial institution is being challenged.

Advancements in technology have ramifications for real applications in many Thai businesses, and the banking industry is no exception. Changes in consumer lifestyle are amongst major factors pushing financial institutions to implement technology-based services that will deliver traditional transactions in a more timely and convenient manner. Such a trend is evidenced by the fact that many Thai banks have invested a significant amount of resources modifying their technology systems to support new on-line services and to enhance efficiency and cost-effectiveness of their operations. A new dimension of competition has also emerged in the form of non-bank providers, begging the question of valid regulatory framework and forcing us to rethink our definition of financial institution and role of central banks

E-Banking represents a new challenge to the overall competitiveness of the banking industry. Notwithstanding the inherent risks of this cyber reality, potential benefits from such services are likely to outweigh its costs, and therefore we must resign ourselves to the role of supporting and nurturing this new tool. Such parental support will continue to include our duties toward systemic security, consumer protection, risk management, and privacy. Thus, E-Banking fits the a regulator's age-old conundrum of striking the right balance between regulatory oversight and innovation.

Ladies and Gentlemen,

I hope that I have presented to you an abbreviated version of the common challenge we all face. It is my hope that this seminar will provide us all with the opportunity to dip into the vast pool of knowledge possessed by our resource persons to provide us with new-found understandings, essential for strengthening our interconnected financial infrastructure, as well as close network.

Lastly, I hope you will have some time to see the beautiful Chiang Mai, orchid of the North.

It is with great pleasure that I declare the opening of this "SEANZA Workshop on the New Capital Accord and E-Banking."

Thank you.