

## Lionel Van Lare Dosoo: Risk-based supervision

Keynote address by Mr Lionel Van Lare Dosoo, Deputy Governor of Bank of Ghana, at the "Regional seminar on risk-based supervision", Accra, 24 April 2006.

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Mr. Chairman,  
Distinguished Resource Persons,  
Workshop Participants,  
Ladies and Gentlemen,

I am delighted to be asked to deliver the welcome address and open this very important workshop that is jointly organised by the Bank of Ghana and the Office of the Superintendent of Financial Institution (OSFI), Ottawa, Canada.

Let me take this opportunity to extend to you and especially our foreign guests a warm welcome to Ghana and to this important workshop. I am informed that apart from the resource persons who come from Canada, we have assembled for this workshop participants from Nigeria, The Gambia, Sierra Leone and Ghana. I therefore perceive this gathering as constituting a small international community with an opportunity for cultural exchanges in addition to the specialised knowledge and skills to be acquired. Even though I recognise that this week-long workshop is quite loaded and tight, I will encourage you to find time outside this busy schedule to explore and sample all the wonderful delights Accra has on offer.

Ladies and Gentlemen, there could not have been a better time for this workshop than now given the strategic importance of financial stability to the overall performance of our economies. Most of our economies (in particular Ghana) at the moment are at the threshold where sustainable macroeconomic stability, of which financial stability is key, has become the imperative condition for the growth and development process.

The international banking scene in general has in recent years witnessed strong trends towards globalization and consolidation of the financial system. Stability of the financial system has become the central challenge to bank regulators and supervisors throughout the world. The multi-lateral initiatives leading to evolution of international standards and codes and evaluation of adherence thereto represent resolute attempts to address these challenges. These are major challenges to both developed and developing economies alike and developments over the recent past suggest that one cannot begin to imagine the cost of inaction.

Ladies and Gentlemen, the growing diversities and complexities of banking business, the spate of product innovation with complex risk phenomena, the contagion effects that a crisis can spread given the linkages and interdependence of banks and the growing trend of businesses without borders, calls for a new approach to ensuring the financial health of our economies and that is what Risk-Based Supervision is all about.

The risk based supervision process in my estimation involves continuous monitoring and evaluation of the risk profiles of banks in relation to their business strategies and exposures. This assessment will be facilitated by the construction of a risk matrix for each institution, and thus creates the room for focused supervision in relation to available resources. Ladies and Gentlemen, this will in no small way help to optimize the synergies from the different activities, including the regulatory and supervisory functions, and ultimately enhance substantially, the overall efficiency and effectiveness of the supervisory process.

Mr. Chairman, the current shift in focus is in line with the introduction of the New Basel Capital Accord (Basel II) to include operational risk. This puts further emphasis on supervisory review process and market discipline, which borders on transparency and full disclosure of financial information. These are intended to provide clear bases for effective management of risks and allocation of capital to cover them with the view to making safe and sound institutions. At the appropriate time, and that is possibly by end 2009, we would adopt Basel II.

In addition to these intended changes, Mr Chairman, another development worth mentioning is the adoption and implementation of International Financial Reporting Standards (IFRS), which presents a uniform basis for recognition, classification and measurement of financial assets and liabilities and the

related income, and expenditure of financial institutions. In Ghana, consultations have started between the Bank of Ghana, the Institute of Chartered Accountants and the banks to determine those aspects that affect banks and how to implement them to suit our local conditions.

Ladies and Gentlemen, it is not hard to see that this shift in focus of regulation and supervision will demand a change in management strategies in both the supervisory authorities and the banks. In particular, the effectiveness of the risk based supervision would invariably depend on banks' preparedness in certain critical areas, such as quality and reliability of data, soundness of systems and technology, appropriateness of risk control mechanism, supporting human resources and organisational back-up.

Mr. Chairman, in my estimation, the above will obviously require the banks to re-orient their organisational set up to put in place efficient risk management architecture, risk focused internal audit, strengthening of the management information system, and set up compliance units. A successful transition to risk based supervision cannot do without the above and obviously make them imperative.

Mr. Chairman, for this change to be effective in containing and managing risk, it has to be implemented throughout the whole sub-region in order to avoid contagion due to the current trend of financial integration within our sub-region. I am happy to note, Ladies and Gentlemen, that efforts are underway to bring the whole sub-region in line. The West African Monetary Zone (WAMZ) concept includes a proposed central supervisory authority (WAFSI). This requires member countries to re-engineer their supervisory frameworks to conform to international best practices. In pursuit of this, an assessment of compliance with the Core Principles of Effective Banking Supervision of member countries was carried out which identified the problem of member countries to include among others: lack of information sharing; risk management; opportunities for money laundering; and lack of remedial measures. I am glad to note that member countries have since taken necessary steps to adopt relevant aspects of the core principles.

In line with the above, a new Ghana Banking Act was promulgated in 2004, which incorporated the requirements of the core principles. Consequently, the Bank of Ghana has begun putting in place measures to align the country's supervision methodology to a more Risk-Based Supervisory Approach beginning 2007.

It is in view of this that I see this workshop to be extremely important and timely. It is expected that this workshop will offer you the opportunity to thoroughly evaluate and review the status quo and identify the necessary measures in relation to the way forward. I believe that the next few days will go a long way to strengthen the capacity of our supervisors and facilitate the application of the Risk-Based Supervisory approach. The task ahead is challenging but I believe that with a common resolve it is not insurmountable.

Ladies and Gentlemen, let me once again take this opportunity to thank OSFI and the Canadian International Development Association (CIDA) for supporting this workshop. I wish you a productive week and encourage you all to draw on the wealth of knowledge of the facilitators as well as the rich experience of your fellow participants.

On this note I declare open the workshop on Risk Based Supervision and wish that you all find this workshop useful and the knowledge gained would deepen our understanding of this important aspect of financial stability.

Thank you.