

Denny H Kalyalya: Effective banking supervision – a risk based approach

Opening remarks by Dr Denny H Kalyalya, Deputy Governor-Operations of the Bank of Zambia; at the workshop on “Effective banking supervision: a risk based approach”, Livingstone, 1 December 2008.

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- The Chairperson
- Resource Persons
- Distinguished Workshop Participants
- Ladies and Gentlemen

On behalf of Crown Agents and the Bank of Zambia, I wish to welcome you all to this important workshop on *Effective Banking Supervision: A Risk Based Approach* and to Zambia’s Tourist Capital, Livingstone. In particular, I welcome our resource persons from Crown Agents and participants from the region.

Looking at the programme, it is obvious that you will have a tight schedule. However, I urge all of you to find time in your busy schedule to visit some interesting places that our Tourist City of Livingstone has to offer, especially the mighty Victoria Falls, which although not at its best at this time of the year, still presents a spectacle to behold.

The ongoing global financial crisis has brought tremendous and unexpected challenges to regulatory and supervisory authorities. As you are all well aware, in any economy, more so in market-driven economy, financial institutions play a critical role in the allocation of resources through intermediating between those with surplus resources (depositors) and those in need of resources (investors). Effective and efficient supervision is therefore, crucial to manage risk and avert possible loss to depositors/investors and hence maintain public confidence in the financial system.

Ladies and Gentlemen

This workshop is being held at a time when the global economy has come under serious strain caused by the sub-prime mortgage crisis in the US. Appetite for profit and poor credit risk underwriting standards led to a surge in sub-prime mortgages. This brought about a real estate price bubble as demand for residential properties grew. The situation culminated into a liquidity and credit crunch in financial markets.

The financial crisis has spread to other countries directly through financial market linkages and indirectly through trade. Recent projections indicate that the global financial crisis will lead to global contraction in economic output with a corresponding reduction in incomes, a rise in unemployment and decline in volumes of trade.

Ladies and Gentlemen

The current state our financial sector calls for a new approach to the supervision of banks and other financial institutions. Risk Based Supervision (RBS) represents a paradigm shift from the traditional rules based, historical, standardised and point-in-time assessments to a process-oriented, forward looking, continuous and risk profile driven approach to supervision and regulation of the financial sector.

RBS is a structured and forward looking process designed to identify risk factors to which individual banks and other financial institutions and the entire financial industry are exposed. This approach enables supervisors to critically assess various risks and the risk management systems of banks and other financial institutions in order to assess the risk profile of these institutions. It also enables the regulator to focus supervisory attention on the areas and institutions that pose the greatest risk to financial system stability.

Thus, the supervisory authorities are in a position to identify systemic risk factors and devise intervention measures aimed at forestalling systemic failures. The added advantage of this approach is that it brings about optimal utilisation of supervisory resources.

Ladies and Gentlemen,

I am happy to inform you that following our initial efforts dating back to 1999 to introduce risk based supervision, the Bank of Zambia has this year fully adopted RBS. As a result it is expected that there will be enhanced supervision of banks and other financial institutions.

Let me also state that the BoZ is committed to implementing the Basel II Capital Accord but stands ready to review this stance in the face of the ongoing global financial crisis. As you know Basel II is intended to make banks operate at capital levels which are commensurate with their risk profiles. To this end, the BoZ just issued risk management guidelines.

Distinguished Workshop Participants

As I conclude, I wish to urge the workshop participants to participate actively in the deliberations and use this opportunity to tap knowledge and skills from the vast experience of the resource persons. This workshop provides us with a unique opportunity to share our respective country experiences and challenges.

It is my hope that we will develop the supervisory systems in the region to a level where they will be able to interact effectively. This uniformity in the supervisory systems will prepare us to respond better to regional and global financial challenges.

With these few remarks, Ladies and Gentlemen, it is now my honour and privilege to declare this important regional workshop *on Effective Banking Supervision: A Risk Based Approach* officially open.

I thank you!!!