

# BASEL II/BASEL III



## IMPLEMENTATION STATUS IN ZIMBABWE

JULY 2016

# Presentation Outline

- ▶ Introduction
- ▶ Current Capital Approaches
- ▶ RBZ Basel II Prescribed Approaches
- ▶ Basel II Gap
- ▶ Basel III Implementation
- ▶ Way forward

# Introduction



Commercial  
Banks - 15

Merchant  
Banks - 1

Building  
Societies - 5

Savings Bank -  
1

Developmental  
Institutions -2

MFIs- 149  
DTMFI - 3

# Introduction...

▶ The Reserve Bank adopted a gradual approach to Basel II implementation to allow:

- smooth transition; and
- enable banking institutions to build the requisite capacity to operate in a Basel II environment.

# Introduction...

- ▶ The Reserve Bank laid the foundation for Basel II Implementation through:
  - the rolling out of Risk Based Supervision (RBS); and
  - issuance of a number of Prudential Guidelines focusing on specific aspects of Pillars I to III.
- ▶ Some of the main guidelines covered:
  - Corporate Governance;
  - Risk Management;
  - Securitisation;
  - Financial Disclosure Requirements; and
  - Technical Guidance on Implementation of Basel II.

# Current Capital Approaches: Pillar I

- ▶ Credit Risk – Currently banking institutions are using Basel I when computing capital for credit risk.
- ▶ Market Risk – At a minimum banks are required to allocate capital using the standardised approaches of the Basel II framework.
- ▶ Operational Risk – Under Basel II standardized approach.

# Current Capital Approaches: Pillar II

- ▶ The Supervisory Review Process is covered in the RBZ's RBS manual and associated guidelines.
- ▶ ICAAP was not comprehensively covered now included in RBZ's Basel II document.

# Current Capital Approaches: Pillar III

- ▶ Disclosure requirements are comprehensively covered in the “**Minimum Disclosure Guideline.**”
- ▶ The requirements include disclosure of information relating to:
  - Corporate governance arrangements.
  - Risk profile.
  - On-site ratings.

# RBZ Basel II Prescribed Approaches

- ▶ Credit risk – Absence of wider coverage of external ratings implied implementing the Basel II credit risk standardized approaches would be synonymous to maintaining Basel I.
- ▶ RBZ introduced the Modified Standardized Approach (MSA).

# RBZ Basel II Prescribed Approaches

- ▶ 10 tier rating scale (SRS) that is mapped to the S&P rating scale.

SRS Numerical Classification	Descriptive Classification	Risk level	Five Tier Loan Classification
1	Prime Grade	Insignificant	Pass
2	High Grade	Modest	
3	Satisfactory	Average	
4	Medium Grade	Acceptable	Special Mention
5	Sufficient	Acceptable with care	
6	Speculative	Management Attention	
7	Highly Speculative	Special Attention	
8	Extremely Speculative	Substandard	Substandard
9	Poor	Doubtful	Doubtful
10	Default	Loss	Loss

# Basel II Gap

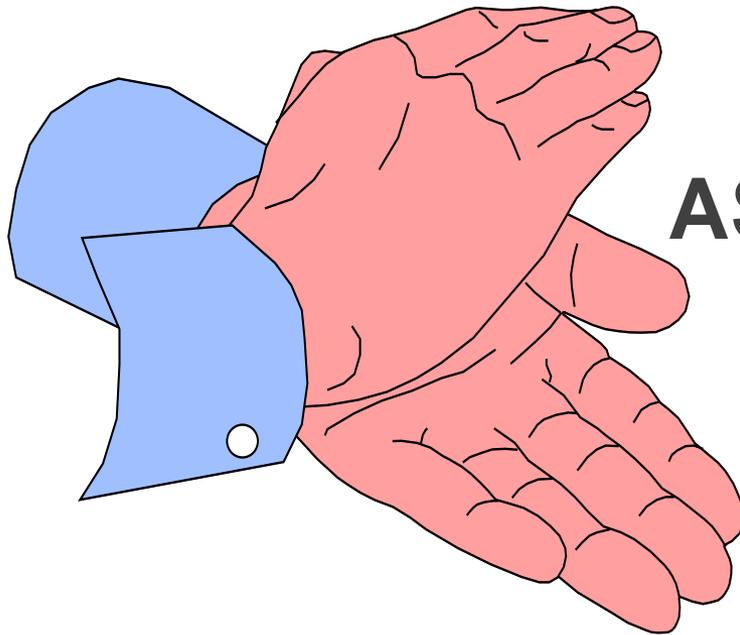
- ▶ The main outstanding issue for Zimbabwean banking sector becoming Basel II compliant:
  - credit risk approaches
  - certain elements of market and operational risk
  - Some banks have not mapped income to the prescribed 8 business lines.

# Basel III Implementation

- ▶ The Reserve Bank Basel II Framework is already **broadly compliant** with some of the provisions of the Basel III framework including, the definition of capital, leverage ratio, abolition of tier 3 capital and some suggested liquidity metrics.
- ▶ The Basel III Framework sets out requirements for deduction from capital due to impairment of capital that arises through impaired capital transactions and investments. The requirements are already taken care of in our **Consolidated Supervision Framework**.

# Way forward

- ▶ The Reserve Bank is currently reviewing the revisions to Basel II framework which are under consideration by the Basel Committee on Banking Supervision (BCBS) and community of bank supervisors on the global arena.
- ▶ Full Basel II implementation is expected to be by the fourth quarter of 2016.



**ASANTE**