

# APEC Meeting

## BIS II and its Impact on Regional Banks

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#### Speakers:

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# Agenda

- Introduction: What are the issues at stake?
- How are banks in the Region reacting to BIS II?
- They way forward
- Conclusions



# Will BIS have an impact on the strategic positioning of banks?

- Orbit Theory of Bank Strategies: All banks operating in a financial system are subject to the “centrifugal forces” of competition, and the “centripetal” institutional forces.
- How each bank balances these two forces defines its strategic positioning.
- Will the adoption of BIS II have a significant impact on the institutional forces? If so, what form will those changes have? Will it require banks in the system to review their strategic positioning?

## Will BIS have an impact on bank capital?

- It will reduce credit risk regulatory capital on some segments/product
- It will introduce operational risk capital
- If the bank moves to advanced risk models, it may lead to an overall reduction in regulatory capital requirements
- But rating agencies and some banks assess the amount of capital required more on economics than on regulation

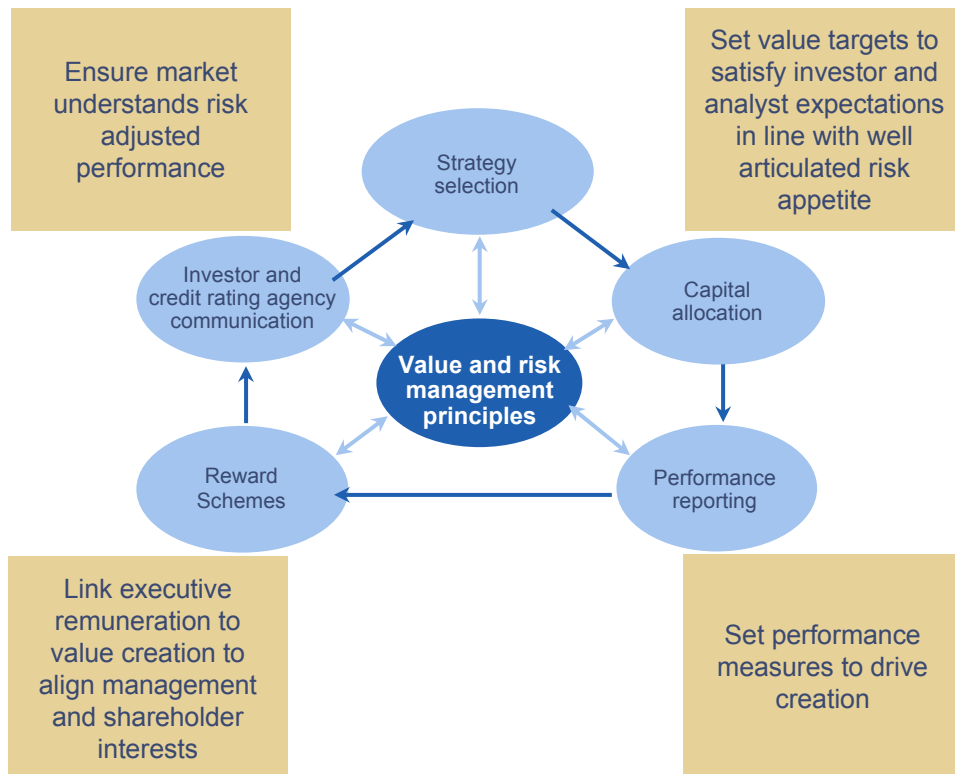
## So asking what will be the impact on Capital may be the wrong question

- There are other, more reliable, source of quantitative/tangible benefits:
  - Reduce charge-offs through more sophisticated credit management
  - Reduce foregone opportunities through better credit risk management models (i.e., entering new markets)
  - Reduced losses deriving from operational incidences
  - Cost savings deriving from streamlined operational processes
- And also of significant qualitative/intangible benefits:
  - BIS II “certified” (?) banks will increase reputation
  - Increased reputation may derive in lower funding costs

# Strategic positioning

- Integrate Basel strategy with business strategy and risk appetite

The drive towards IRB and AMA for Basel II is consistent with maximizing value creation. Organizations should think of Basel II as a springboard to competitive advantage rather than “What is the minimum I need to do to comply?”



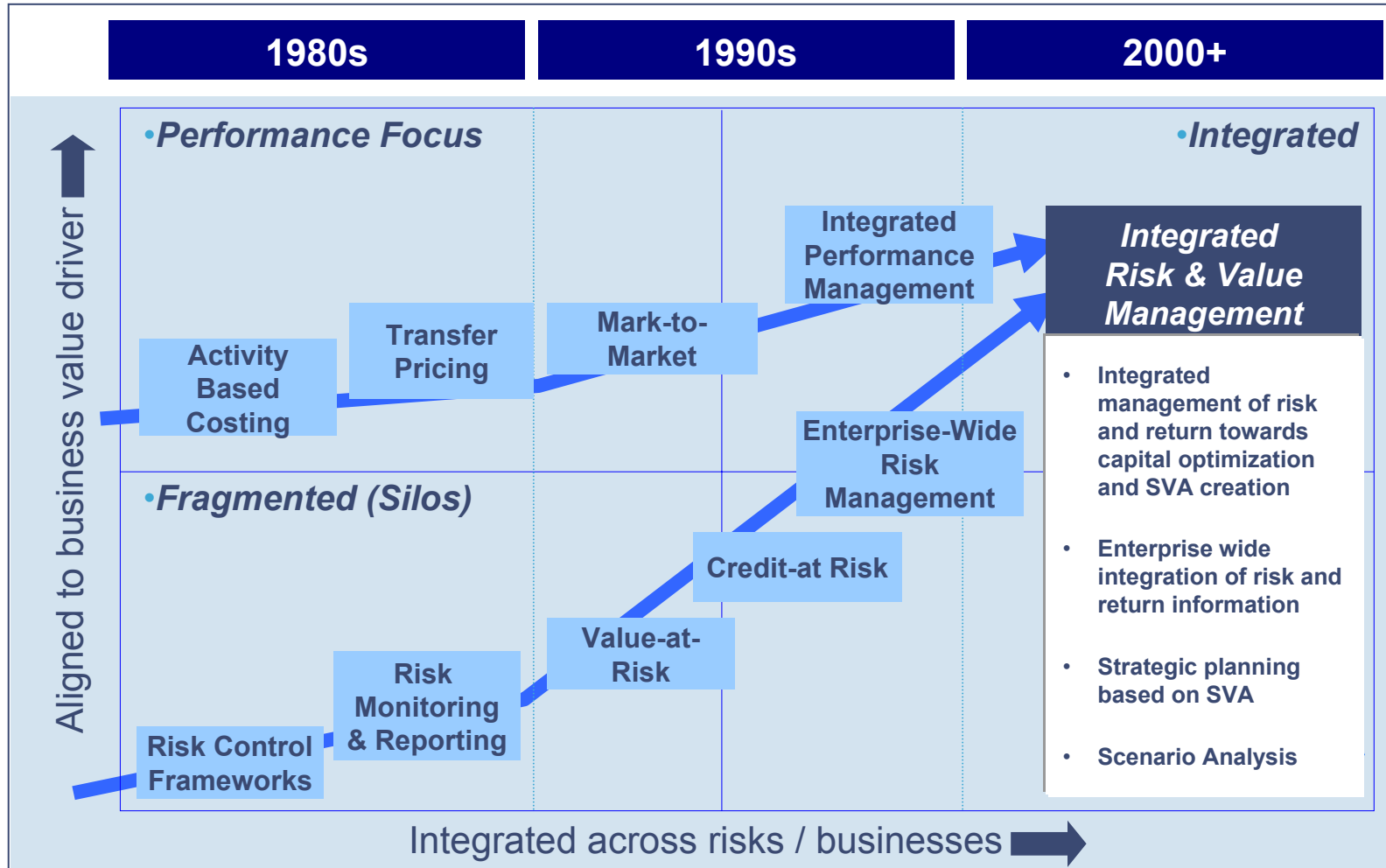
## Specific issues include:

- Improving shareholder value
- Improving/maintaining credit rating
- Economic capital savings
- Improved risk management strategy
- Closer working relationship between Finance & Risk functions
- Alignment of individual’s compensation to risk-sensitive behaviour
- Improved MI in other related areas
- Cost reduction through organisational realignment and/or process improvement

**Those that take a more holistic view of Basel II can achieve significant strategic and operational benefits**

# Industry Trends

- Evolution of Risk Management and Performance Management
- Emphasis towards integrated management of risk and return information

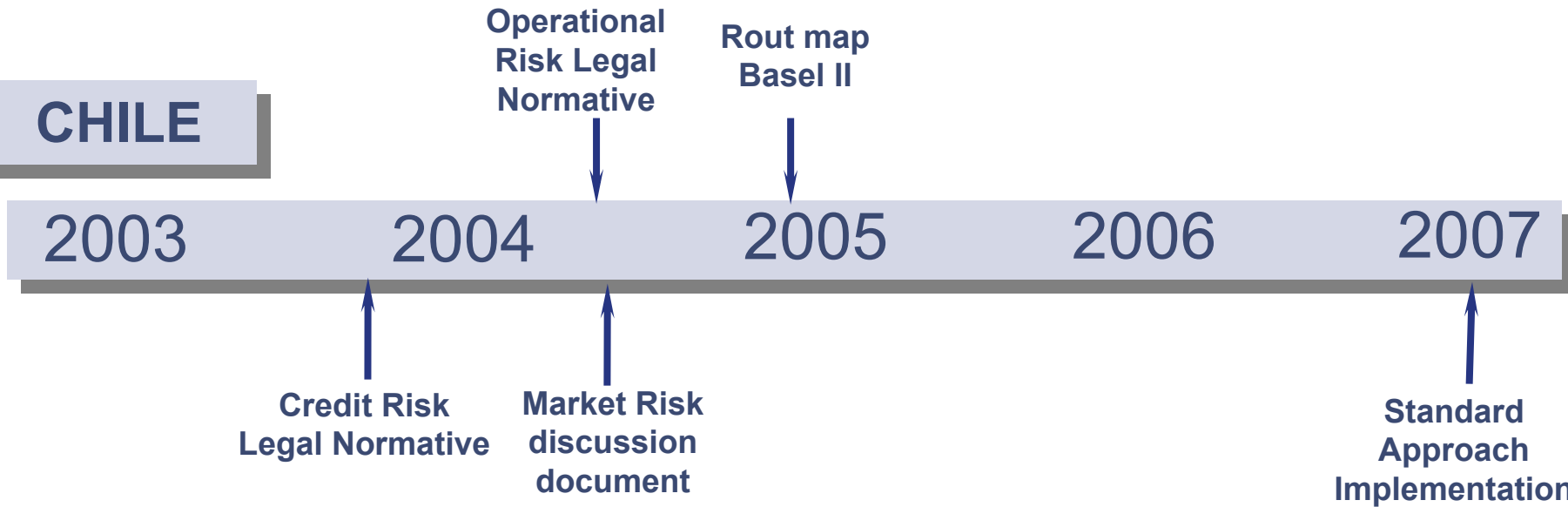


# Basel II Timeline

## Basel II: G10



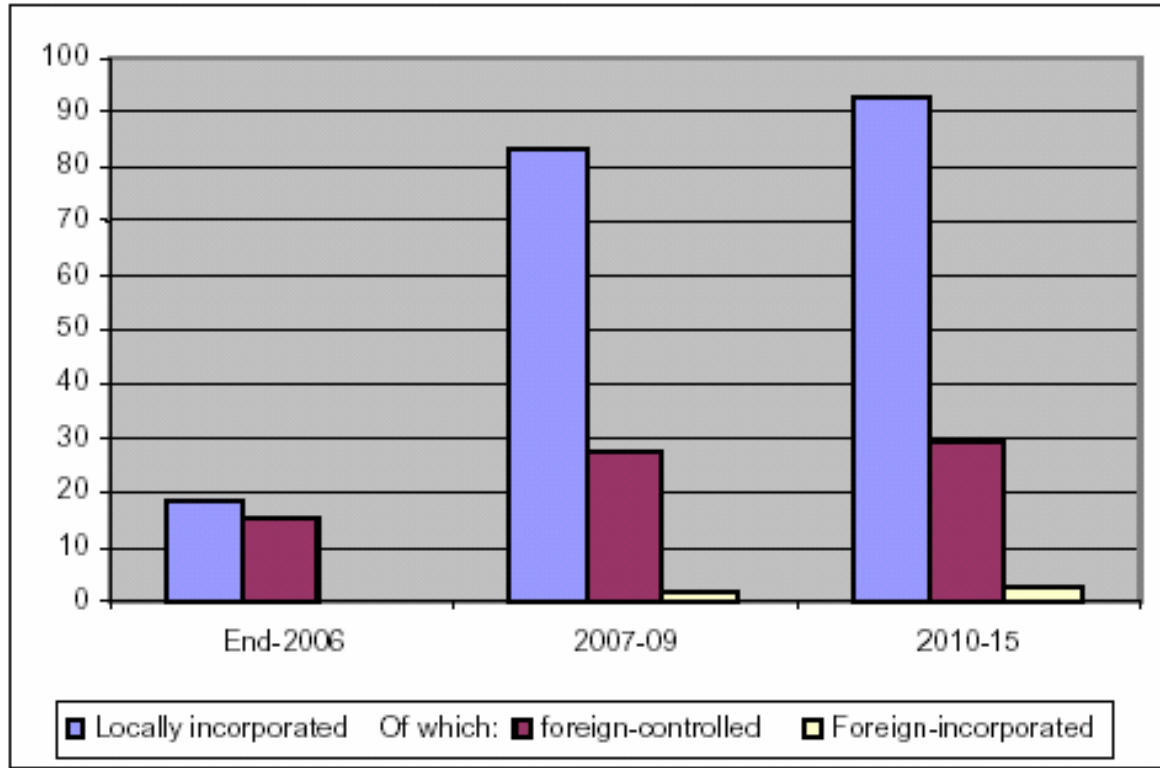
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# Basle II in Latin-American

**Banks adopting Basel II by percentage of total banking assets (weighted average)**

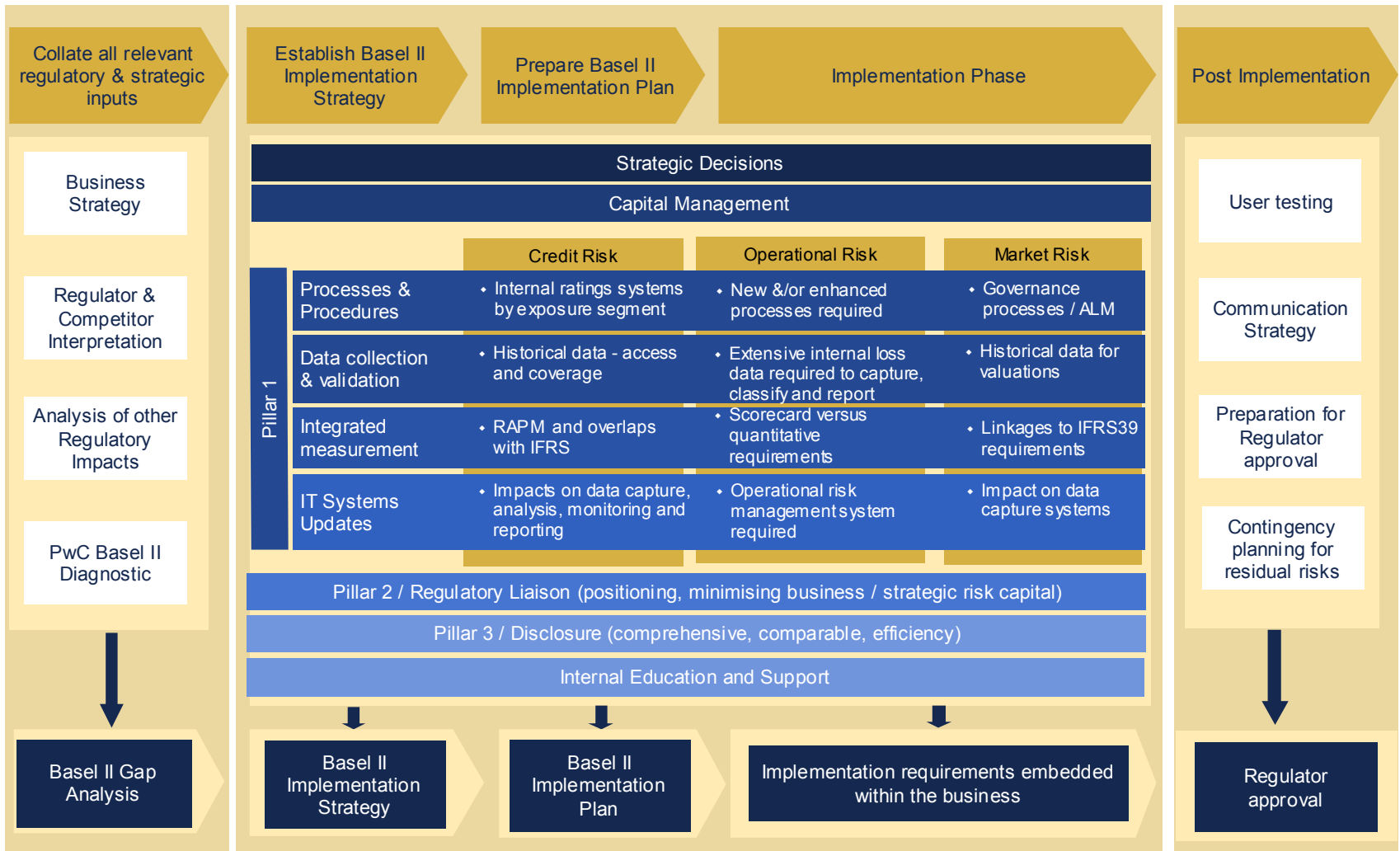


Source: Summary of responses to the Basel II Implementation Assistance Questionnaire, July 2004

## Countries

- Argentina
- Bolivia
- Brazil
- Chile
- Columbia
- Costa Rica
- Dominican Republic
- Ecuador
- El Salvador
- Guatemala
- Honduras
- Mexico
- Panama
- Peru
- Uruguay
- Venezuela

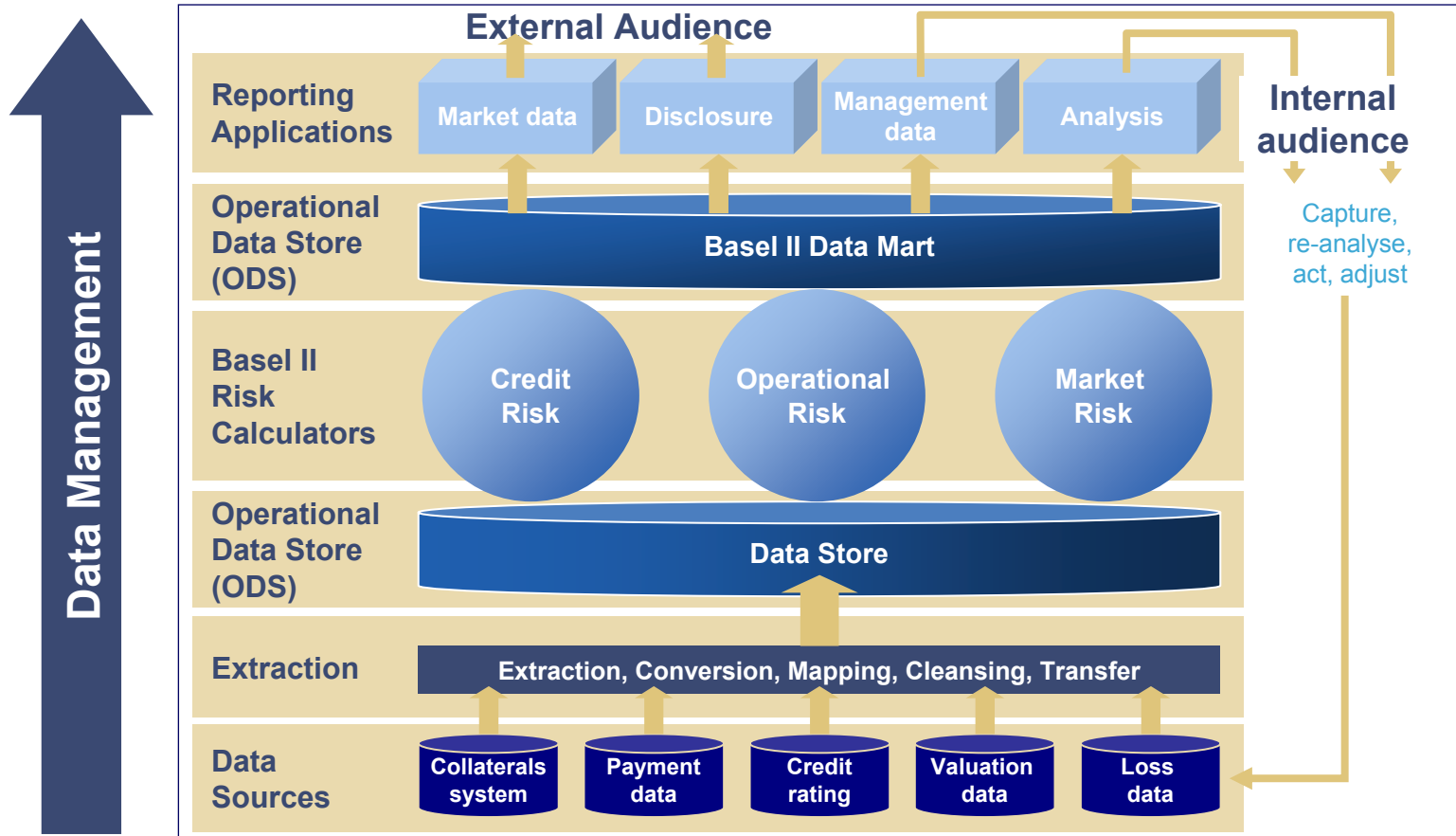
# Basel II programme – Overview



# Implementation priorities – Systems and data management

## Define systems & data architecture design

- Organisations will need to identify how data will be gathered, enhanced, stored, calculated and reported in a controlled & standardised manner across business lines.



# Operational Risk eXchange Association



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## So banks should grasp BIS II with both hands and...

- Take it as an opportunity to review your strategic positioning
- Take it as an incentive to adopt best practices in credit risk management
- Take it as an opportunity to review and streamline your operations and processes
- Take it as an opportunity to move to the next level of excellence and value creation
- Start now!!

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