National University of Science and Technology

Think in Other Terms

Basel II, Zimbabwe Commercial Banks Preparedness for Implementation.

RESEARCH PROJECT

BY

GERALD GORE
P006 2910D

Submitted in Partial Fulfillment of the Masters in Science (Finance and Investments) Degree

SUPERVISOR: MR A SIXPENCE

FINANCE DEPARTMENT

BULAWAYO

2009

EXECUTIVE SUMMARY

Basel II provides an array of options for computing regulatory capital, is more complex than its predecessor Basel I and its implementation has an intensive requirement on resources, both human and financial. Zimbabwean commercial banks were coming from a position of low profitability following the dollarization of the economy. Despite this financial handicap, the Reserve Bank of Zimbabwe, being the regulatory authorities announced that all banks should adopt Basel II by the end of 2009. The study sought to establish the state of preparedness of commercial banks to adopt Basel II as well as the benefits and implications of implementing the new accord. The study was intended to provide a useful barometer to measure commercial bank's readiness to move to Basel II. It was further meant to give insight to regulatory authorities on concerns or areas that needed further guidance for commercial banks to be able to fully adopt Basel II. A survey was utilized to carry out the study as this allowed for the collection of a large amount of data from a sizeable population in a highly economical way. The population consisted of the 17 commercial banks registered in Zimbabwe as at 30 June 2009. A self administered questionnaire was utilized to collect data from the respondents. The study revealed that the majority of commercial banks in Zimbabwe were still in the early implementation stage of Basel II and were anticipating implementation by the end of 2010. However, most foreign owned commercial banks had made significant progress. A significant portion of the commercial banks did not have Basel II project implementation teams as well as staff training programs. All commercial banks indicated their desire to adopt the simpler approaches to credit risk, with only a few foreign owned banks anticipating to adopt the advanced approaches to operational risk. The majority of the banks indicated that the primary reason for adopting Basel II was regulatory compliance and enhanced market perception and reputation. Most of the commercial banks cited outstanding regulatory guidance as the impediment to their Basel II programs. The study revealed that most of the commercial banks did not have budgetary allocations for Basel II and further, their Information Technology systems were not compatible with Basel II requirements. The research came to the conclusion that commercial banks in Zimbabwe were not yet ready to adopt Basel II and that most of the banks would only be able to adopt the new accord by the end of 2010. Basel II implementation was being driven by foreign owned banks. Implementation of the new accord was not top on the priority list of most commercial banks as they were battling other pressing issues such as meeting minimum capital requirements. It was also noted that regulatory compliance was the major motivator for implementing Basel II, with little benefits to the banks being envisaged from implementing this accord. The study recommended that commercial banks should start to seriously put plans for Basel II implementation. Staff training and IT upgrades were to be prioritized. On their part, the RBZ needed to give clear guidance to the market on the Basel II approaches to be adopted. Further, the bank needed to ensure the necessary buy in from commercial banks on the benefits to accrue to them by implementing the new accord outside their quest for regulatory compliance. Further studies could also be conducted in establishing the relevance of Basel II to less-developed banking markets such as Zimbabwe as well as the usefulness of Basel II in view of the global recession.