

Recently the Reserve bank of Malawi (RBM) notified all banks that Malawi had opted to graduate from Basel I to Basel II and therefore all banks will be required to adopt Basel II principles. Basel II is the second of the Basel Accords' recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision whose purpose is to create an international standard to be used when creating regulations about how much capital banks need to put aside to guard against financial and operational risks.

The difference with Basel I, among other things, is that now Banks will have to pay particular focus to operational risk and will not only focus on credit risk. In essence banks will now be expected to take into account all forms of risk which they are exposed to and take measures to mitigate such risks. The Basel II approach will be based on the following pillars:

- (1) minimum capital requirements,
- (2) supervisory review; and
- (3) market discipline.

Furthermore, it is not only the executive team which will be expected to manage risk but also the board of directors will play a role in monitoring risk. Of particular concern to Malawian banks, is the cost of implementing Basel II which has been estimated at between MWK300 Million to MWK1 Billion, depending on the size of each Bank. The advantage however of implementing Basel II will be that the credit rating of banks within the country, will most likely improve. Already the RBM has embarked on training sessions to sensitize all banks on what is expected of them to ensure a smooth transition from Basel I to Basel II. It is expected that a successful transition will create a more financially stable banking sector within the country and will safeguard the public from financial meltdowns such as the credit crunch of 2008 that sent major economies into recession.