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Operational Risk: The Changing Regulatory Landscape

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Abstract

This paper attempts to study the transition of all Public Sector and Private Sector Banks in India from Basic Indicator Approach (BIA) of operational risk capital charge capital estimation under Basel II to new and revised Standardised Approach (SA) under Basel III for the period from 2014-15 to 2020-21. The results of this study indicate that operational risk capital charges vary, depending upon the size of bank's gross income under BIA and business indicator and loss experience under SA. The study concludes that the operational risk capital charges of the banks would be high for big banks like State Bank of India and Bank of Baroda among public sector and HDFC Bank and ICICI Bank among the private sector. Because, bigger the bank, higher the gross income/business indicator and thus, more is the capital requirement for operational risk. The capital under revised SA would be even more for the banks with high operational losses. Thus, having in place a strong operational risk management framework (ORMF) is the need of the hour.

Key words: Risk Management, Operational Risk Capital Charge (ORCC), Basel Accords, Capital Adequacy Ratio, Banking Crises

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