The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

New Rules Revolutionize Banking Sector

By Howard Amos

August 01, 2012



Sberbank is one of only five Russian banks to be implementing Basel II rules. **Maxim Stulov**

While European and U.S. financial institutions are grappling with the intricacies of implementing the Basel III global banking accords, a select group of Russian banks are on track to comply with the previous stage, Basel II, by 2014.

State-owned giants Sberbank, VTB and Gazprombank, as well as privately controlled Alfa Bank, are among five "pilot" banks currently implementing Basel II, which was passed by the Basel Committee on Banking Supervision in 2004.

"The world is really changing," said Vadim Kulik, director of Sberbank's risk department Wednesday. "It's an industrial revolution in the sector."

Following behind India, China and Brazil, Russia is one of the last among the major emerging markets to implement Basel II. The failure of the accords to prevent the 2008-09 financial crisis led to the Basel III agreement, which was finalized in 2011.

Sberbank is already nine months into the "active phase" of introducing Basel II, said Kulik, but the bank launched some risk-analysis models as early as 2009. All the models must be in place by 2013, he added, because they are obliged to function for a year before the regulator can give its approval.

The compliance process has obliged the country's biggest lender to develop over 600 such risk models, Kulik said. All of Sberbank's clients will have a credit rating, akin to those ascribed to banks and governments by agencies like Standard and Poor's, Moody's and Fitch.

Implementing Basel II is a priority of the Central Bank and financial regulators and is part of the Kremlin's drive to make Moscow an international financial center.

The financial cost of Basel II for banks is usually between 2 and 4 percent of capital, but Sberbank will spend less than 0.5 percent of its capital on the project, Kulik said. Risk procedure consultants Oliver Wyman are advising Sberbank on the transition.

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