



No: 2/23

**CIRCULAR BIA 2/23 – NOTIFICATION ON ADOPTION OF THE
PROPORTIONALITY FRAMEWORK**

In my capacity as the Director of Banking Supervision and under the power vested in the Bank by virtue of section 3(1) of the Banking Institutions Act, 2023 (Act No 13 of 2023) (“the Act”), I hereby issue the **Circular BIA 2/23 – Adoption of the Proportionality Framework.**


ANCOIS PLAATJE
DIRECTOR: BANKING SUPERVISION

18 October 2023

CIRCULAR BIA 2/23

TO: ALL BANKING INSTITUTIONS

DATE: 18 October 2023

ADOPTION OF THE PROPORTIONALITY FRAMEWORK

1. PURPOSE

The purpose of this Circular is to notify the banking industry that the Bank of Namibia (the Bank) has adopted a proportional approach to supervising and regulating banking institutions in line with the Risk Based Supervisory approach adopted by the Bank. This proportional approach will be embedded in onsite examinations, offsite assessments as well as in existing and future regulations and standards.

2. DEFINITIONS

Terms used in this Circular are as defined below, or as reasonably implied by the contextual usage in the said Circular:

- i. **“Proportionality”** – in banking regulation and supervision, means tailoring the rules to reflect the size, risk profile, complexity, or other characteristics of banks. It is also generally associated with simplifying rules for smaller or less complex banks.
- ii. **“DSIBs”** – means banking institutions whose distress or failure could cause considerable disruption to the domestic financial system and the wider economy. These are banking institutions that are domestically “too big to fail”.
- iii. **“Non-DSIBs”** – means banking institutions whose distress or failure could not cause considerable disruption to the domestic financial system and the wider economy.
- iv. **“Tier 1 Banks”** – means banking institutions that have been classified as Domestic Systemically Important.
- v. **“Tier 2 Banks”** – means banks that have been classified as Non-Domestic Systemically Important.

3. INTRODUCTION

The Basel Committee on Banking Supervision (BCBS, 2019) defines the principle of proportionality in banking and regulation, as setting regulatory and supervisory standards for banks that are commensurate with their risks, in achieving objectives such as institutional and systemic safety and soundness. For regulatory and supervisory purposes, a banking institution’s risk profile encompasses the banking institution’s size, systemic importance, complexity, business model, cross-border activity, and the risks to which it is exposed. The

Bank of Namibia is empowered by section 4(2)(c)(f) of the Bank of Namibia Act, No. 1 of 2020 to promote a sound progressive and inclusive banking system. Since the Basel regulatory frameworks are mostly geared for Global Systemically Important Banks, the principle of proportionality allows regulators and supervisors to tailor rules to reflect the size, risk profile, complexity, and other characteristics of banking institutions operating within their respective jurisdictions.

The Bank has already adopted a risk-based supervision approach which has assessed the risk and impact of the different banking institutions within the Namibian jurisdiction. The risk-based supervision approach resulted in the classification of banks namely as Tier 1 banks (Domestic Systemically Important Banks (DSIBs)) and Tier 2 banks (Non-Domestic Systemically important Banks (non-DSIBs)). Since the banking institutions in Namibia have already been classified and categorised as DSIBs and Non-DSIBs, the Proportionality Framework will focus primarily on introducing proportionality principles and on a need basis, reduce or enhance the regulatory and supervisory burden on banking institutions, commensurate with their risk profiles.

The Bank will take further proportionate measures on any banking institution that could pose risk that is of systemic in nature to the financial sector, in addition to proportional measures already applied at classification of the groups of banking institutions. This ensures alignment with the BCBS recommendation that when proportionality is applied, it should not negatively impact the resiliency and sustainability of a banking institution and the financial sector.

4. THE PROPORTIONALITY PRINCIPLES

The Proportionality Framework sets the proportionality approach to be adopted by the Bank when conducting its regulatory and supervisory duties over the banking institutions within the jurisdiction of the Republic of Namibia. The proportionality principles applied by the Bank are derived from the Basel Core Principles for Effective Banking Supervision where themes were derived from the Financial Stability Institute report on the Basel Core Principles Executive Summary (Financial Stability Institute, 2020).

5. TARGETED AREAS OF PROPORTIONALITY

The Basel Committee on Banking Supervision (BCBS) surveyed various jurisdictions and found that the targeted areas for the application of proportionality are (a) Minimum Capital Ratios; (b) Liquidity Requirements; (c) Counterparty Credit Risk; (d) Stress Testing; (e) Large Exposures; (f) Market Risk; (g) Interest Rate Risk in the Banking Book (IRRBB); (h) Capital Planning and Supervisory Review; (i) Disclosure Requirements; (j) Recovery Planning. In the absence of proportionality being applied to a specific risk component by way of a determination, and until such a time that all determinations that do not have elements of proportionality embedded in them are revised, the Bank will make use of the proportionality framework in implementing a proportionate approach.

6. APPLICATION OF PROPORTIONALITY

The matrix below provides guidance on how the extent of proportionality to be applied will be determined. The matrix considers two key components, probability and impact. Probability refers

to the likelihood of failure given the level of risk a banking institution is exposed to, while impact refers to the extent of the damage to the financial system should a banking institution fail. In determining probability, the Bank considers all information available to it and determines how the risk exposure is likely to impact the banking institution’s capital and/or earnings. In determining the impact, the Bank considers the size, interconnectedness, substitutability, and complexity of that particular banking institution. The risk matrix is therefore a combination of both the impact rating and probability rating, and should result in a rating of either low, medium-low, medium-high or high. The ratings assigned for probability and impact should be informed by professional judgement but taking into consideration the afore mentioned factors.

		Likelihood			
		Low	Medium Low	Medium High	High
Impact	Low				
	Medium Low				
	Medium High				
	High				

The ratings assigned to a banking institution may result in the following application of proportionality:

Low - Existing minimum standards prescribed in the respective determinations with more scope for exemption from some of the minimum regulatory requirements.

Medium Low - Existing minimum standards prescribed in the respective determinations with limited scope for exemption from some of the minimum regulatory requirements.

Medium High - Existing minimum standards prescribed in the respective determinations with consideration for possible add-ons.

High - Existing maximum standards prescribed plus additional requirements.

7. AMENDMENT OF THE CIRCULAR

The Bank may at any time amend, delete, vary, add, or change any provision of this circular and such amendment, deletion, variation, addition, or change shall become effective from the date of notification to the banking institutions by the Bank.

Questions relating to this circular should be addressed to the Director, Banking Supervision Department, Bank of Namibia, Tel: +264 61 283 5041 or email: ancois.plaatje@bon.com.na .

8. COPIES OF THE CIRCULAR

Two copies of this circular are enclosed for the use of your banking institution's independent auditors. The attached acknowledgement of receipt should be returned to the Bank as soon as possible, duly completed and signed by both the Chief Executive Officer/Managing Director and the auditors of the banking institution.


ANCOIS PLAATJE
DIRECTOR

18 October 2023