

**Significance of Basel Approaches in the Management of Operational
Risk in the Banking Sector of Pakistan**



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ABSTRACT

Operational risk which was first found affecting the organizations and their operations in 1990s have always created disturbance for them. Therefore, the risk related to the operations must be reduced and for that purpose Basel committee was form and according to Basel II, three approaches have been proposed. Organizations need to manage the operational risk by following the policies and through any of the approaches. There are three approaches which the Basel committee had given, Basic Indicator Approach, Standardized Approach and Advanced Measurement Approach. First two needs the capital amount to be held for the recovery of loss generated through operational risk while in the third technique, organization can create its own empirical model according to the loss. The study is about the impact of these approaches on the operational risk management in the banking industry of Pakistan. For that purpose, a questionnaire was given in 9 different banks to know that whether these approaches are effective in the banks to improve their performance and reduce the losses arising from this kind of risk. Most of the respondents gave positive answers to them and the research also told that most of the banks in the country are using standardized approach which is so far effective for them. Positive regression results with t value greater than 2 were the evident of the significant results. The problem during the research was the employees' insufficient knowledge and it was not convenient to find the persons with some know-how about the topic and they were hesitant in answering and giving any information as well. It is required by these banks to train their employees. Although top management is involved now in the ORM policies, still there will be more involvement required and management of this risk should be taken more seriously to further reduce the losses.

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