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**MACRO-IMPLICATIONS OF BASEL2: COMPETITION:
AN INDUSTRY PERSPECTIVE**

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FOR

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POLICY CHALLENGES FOR THE FINANCIAL SECTOR: BASEL II

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IMPACT BASEL 2 BEYOND.....

- ◆ ITSELF;
- ◆ JUST COMPLIANCE;
- ◆ LARGE, INTERNATIONALLY ACTIVE,
COMPLEX BANKS;
- ◆ REGULATED BANKING SYSTEM;
- ◆ BEYOND BASEL-COMMITTEE
COUNTRIES;



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IMPACT BASEL 2 BEYOND ITSELF

- ◆ INTENSIVE DIALOGUE AMONG SUPERVISORS & BANKS TO BE MAINTAINED;
- ◆ BASEL2 IS “JUST” MILESTONE IN ON-GOING ERM JOURNEY: “FUTURE WORK” TO BE INITIATED IMMEDIATELY;
- ◆ NOTWITHSTANDING BASEL2: MARKET-DISCLOSURE BY LEAD BANKS WILL ADVANCE FURTHER AND BECOMING MORE PROMINENT (NB: B2/IASB !);

IMPACT BASEL2 BEYOND JUST COMPLIANCE

- ◆ SUPERVISORS LOOK AT ADEQUACY RISK-CAPITAL AND - PROCESSES; BANKS FOREMOST AT EFFICIENCIES;
- ◆ ‘PRINCIPLES’- BASED, BANK-LEAD: “COLLINA”;
- ◆ SUPERVISORY COMPLEXITY: HOME/HOST, NATIONAL DISCRETIONS;
- ◆ RECENT HISTORY: DIVERSIFICATION REDUCES RISK-SENSITIVITY, SO MUST BE NEXT FRONTIER TO BE ADDRESSED;

IMPACT BASEL 2 BEYOND LARGE, INTERNATIONAL, COMPLEX BANKS

- ◆ **EU CAD3: ALL BANKS;**
- ◆ **INTERNATIONAL BANKS HAVE SUBSIDIARIES IN NON-B2 ENVIRONMENT;**
- ◆ **LEVEL PLAYING FIELD MAINTAINED ?**
- ◆ **BANK MARKETS: NEW PRODUCTS WILL EMERGE, BUT PRICING-IMPACT BECAUSE OF ENHANCED RISK-SENSITIVITY WILL BE LIMITED**
- ◆ **MARKET PRESSURE ON ALL BANKS FROM RATING AGENCIES, FI & EQUITY ANALYSTS;**
- ◆ **FOSTERING DOMESTIC CONSOLIDATION;**



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IMPACT BASEL 2 BEYOND REGULATED BANKING SYSTEM

- ◆ **MORE DIS-INTERMEDIATION, RISK- TRANSFER INSTRUMENTS; GROWTH OF FINANCE COMPANIES, FUNDS ETC.**
- ◆ **ARRANGE MORE, KEEP LESS: AFFECTING ANNUITY INCOME ?**
- ◆ **OPERATIONAL RISK: MORE SPECIALISATION RESP. OUTSOURCING (HLP'S);**
- ◆ **PWC FOR EU: IMPACT ON ECONOMY, PROCYCLICALITY, SME: NEUTRAL TO LIGHTLY POSITIVE (BUT VC/PE TO BE WATCHED);**



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IMPACT BASEL2 BEYOND BC COUNTRIES

- ◆ **OPERATIONAL RISK FIRMLY ON MANAGEMENT AGENDA (SPP);**
- ◆ **CATALYSTS FOR SAFER & SOUNDER BANKING SYSTEM WORLDWIDE, BENCHMARK FOR LOCAL FINANCIAL SECTOR ROADMAP;**
- ◆ **BUT: OVER-RELIANCE ON RATING AGENCIES IS UNDESIRABLE;**

CLOSING OBSERVATIONS

- ◆ **BASEL 2 IS, EVEN BY DESIGN, NOT “BEST PRACTICE” AND CONTINUES TO BE “WORK IN PROGRESS;**
- ◆ **IT IS AN EXTREMELY IMPORTANT CATALYST FOR BETTER RISK MANAGEMENT;**
- ◆ **CAUSING SIGNIFICANTLY IMPROVED, MORE TRANSPARENT MUTUAL UNDERSTANDING BETWEEN SUPERVISOR VS. SUPERVISEES;**

CLOSING OBSERVATIONS (2)

- ◆ **BUT: INTERNATIONAL REGULATORY/SUPERVISORY-CONVERGENCE IN THIS INTER-WOVEN WORLD IS OF THE ESSENCE AND STILL A MAJOR CONCERN FOR US;**
- ◆ **IN THE END: THE RISK CULTURE: BUILT OVER YEARS, IS THE DOMINO FACTOR.**