### Pitcher’s Name
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### FoR category
Bank Risk Exposure

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### (A) Working Title
Basel II, competition and bank risk exposure: evidence from Asia-Pacific.

### (B) Basic Research Question
What is the impact of the three pillars of Basel II on bank risk exposure? (How) do their impact on bank risk exposure change with bank’s market power?

### (C) Key paper(s)

### (D) Motivation/Puzzle
Basel Accord II has been widely accepted and adopted as the cornerstone of the banking regulatory architecture. It was built around three so-called pillars which are capital requirements, supervisory review and market discipline with the aim of strengthening the security and soundness of the financial system. However, the severity of the global financial crisis has cast doubt on the role of its three pillars in maintaining a well-functioning banking system. To address the concerns on this global capital regulatory standard, I argue it is crucial to design a bank-level approach and answer the two questions: (i) Whether Basel Accord II empirically influences the risk taking incentive of banks in the way regulatory bodies would hope, (ii) Whether risk taking behaviour of each individual bank is equally impacted by this regulatory framework taking the bank’s power in the market into account. Therefore, the motivation of this study is to shed the light on both of above considerations.

### (E) Idea?
To answer the research questions, the baseline model: bank risk = f (three pillars of Basel II, control variables) is employed. Bank risk includes liquidity risk, default risk, and credit risk; three pillars of Basel II are represented by bank capital, supervisory power and market discipline. To investigate the influence of bank’s market power on the relationships between each of three Basel II pillars and bank risk exposure, the sample is divided into two groups namely high-competition and low-competition basing on the Lerner index. Moreover, interaction terms of dummy variable representing the GFC with each of three variables representing three pillars of Basel II are included to test whether the effects of key determinants of bank risk taking changes across the GFC.

### (F) Data?
**Country:** Asia-Pacific countries. **Reason:** The countries in this region are engaged in the process of deregulation, bank privatization and financial liberalization while the industry is witnessing more consolidation; therefore, they provide a fertile laboratory to examine issues of bank risk.

**Unit of Analysis:** Individual banks.

**Sample interval:** Yearly

**Sample period:** 17 years (1996-2012).

**Data Type:** Bank-specific and Macro-level. Panel data set.

**Data Sources:** Bankscope and Osiris database for bank level information, DataStream database for share prices and interest rate, the World Bank database for country level information.

**Data Issue:** Since the World Bank database on “Bank Regulation and Supervision” is available at only four points in time, I use version I for bank observations in period 1996-2000, version II for bank observations in period 2001-2003, version III for bank observations in period 2004-2007 and version IV for bank observations in period 2008-2012 (Many other studies using this database across a number of years followed a similar approach (Fernandez and Gonzalez, 2005 and Agoraki et al., 2011).

### (G) Tools?
**Research method**
- Using two-step system generalized method of moments (GMM) estimation technique.

**Research software**
- Using Stata.
(H) What's New?

To the best of my knowledge, it is the first time the roles of three pillars of Basel II as well as their interactions with bank market power in reducing bank risk taking are simultaneously investigated at bank level. The additional novelty of this study is its research design in which the sample is categorized into high-competition and low-competition groups to access the influence of bank’s market power in shaping the risk taking behaviour of individual banks.

(I) So What?

The findings of this study have several policy implications. It provides policy makers with empirical evidence to access the effectiveness of each pillar of Basel II in reducing the volatility of banking system. Moreover, it helps them to gain a better understanding about the dependence of the policy effectiveness on the comparative market power of individual banks as well as the change in bank risk taking incentives across the global financial crisis.

(J) Contribution?

This study contributes to literature, especially on Asia-Pacific countries, by answering two controversial questions: whether Basel II can perform their expected roles in reducing bank risk taking? Whether it is a “one size fits all” framework? This study helps regulators/supervisors, especially those in Asia-Pacific region, to reassess their bank regulatory procedure with a more comprehensive understanding of bank risk exposure’s determinants.

(K) Other Considerations

Collaboration:
- A collaboration with research mentors is needed (for data, research software, expert advices)

Target Journal:

“Risk” assessment:
- Low risk in data collection;
- Moderate risks of limited results: in the case of insignificant moderating effects, testing how they change across the GFC becomes meaningless.
- High risk of competition
- Low risk of “obsolescence”

Mickey Mouse Diagram: