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Basel III: made in Europe, forced on Asia?

The Basel III regulations were a response to the global financial crisis of 2007/08.

For Asian banks, the problem is that the crisis was a North American and European phenomenon, and in the most recent turmoil Asia was largely unscathed.

Asia, it is well remembered, had its crisis in the last years of the 20th century, after which Governments of the region and its banks took the actions which have now made Asia such a pillar of world financial stability.

Nevertheless, Basel III is on its way and Asia has to comply, as does Australia where the refrain is similar. "Why should we have to change what we do just because Europe and America had a meltdown?"

Economies need credit to grow, particularly now, so will compliance put a dampener on growth just when Asian economies need it for the future?

The reality is that the financial system is international, and needs international standards and Basel III must be adhered to. Implementation begins as soon as 2013, and while timetables differ the result is fairly similar across the board: more capital is needed.

Ironically these new global regulations may see a lesser role for foreign banks in Asia. European banks for example will be focussing on shoring up their capital, and may not have quite the appetite for Asian expansion.

Australia's ANZ has made Asian expansion a core growth strategy, but the bank is now questioning whether it will be able to afford the way the Bank is executing its Asian investments in light of Basel III.

Across Asia, the effects of the new capital adequacy and risk management standards have differing implications, though the impacts are similar: large sums to increase capital, less money to lend, less growth for banks and a void in longer term lending which presents an opportunity for the large pension funds, should they be interested in taking it.

But at the same time, the reputation of the Asian banks should be boosted, enhancing their ability to attract foreign capital. For a country like the Philippines, which is attempting to boost international participation in its financial sector, Basel III could be a real positive for that reason alone.

A few different scenarios are evident in Asia at the moment. In South Korea, capital adequacy levels have been falling for a year or so, with several domestic banks under the national benchmark. In the Philippines, ratios are up, meaning that Basel III compliance will not be quite as expensive and the situation is similar in Malaysia and Thailand.

Country	Capital Adequacy Ratio (%)
India	11.95
South Korea	13.83
Singapore	10.00
Philippines	16.00

India's largest banks are largely state-owned. Will the Government use the capital requirements as a prompt to sell down its ownership, and get private investors to stump up for Basel III in exchange for more equity?

Given the pressure on India's banks, with the level of impaired assets on the rise, this might be a neat solution for state owners and a welcome development for private investors.

Recently, the Reserve Bank of India estimated that Indian banks would need around US$90 billion to comply with the capital conditions of Basel III.

There's no doubt that, as it will everywhere, Basel III will have a major impact in Asia.

The timing may not be ideal in terms of immediate expansion plans, but the upside – for Asian domestic lenders – should be that European and US banks will find it harder to compete.

All of which means that, over time, Asia's banks will grow stronger on the world stage.