



Basel-III and Shareholder Value

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Typically, rules are perceived to be useful, if they serve the common good. Rules are perceived to be less useful if they do not serve individual interests. The discussion on the impact of implementing Basel-III is now well underway, but it seems it needs to deal with this simple issue first, before dealing with all the technicalities. Banks are now seeking the media to broadcast their concern about the fact that additional regulation, additional capital requirements and changed accounting standards imply an operational risk that is maybe too hard to handle.

One of those banks is ING, headed by Jan Hommen, chairman of the Board of ING. The key concern that Mr Hommen has raised is the fact that this all implies structural changes for the mortgage products, if all real estate collateral should be valued against market value. This could mean that even more limitations will be applied to mortgages, in the Netherlands and in the other countries in which ING operates. This could have a significant impact on the housing market and on the GDP. This is a strong message with clear implications.

The lead regulator for ING is DNB, the Dutch National Regulator. Not coincidentally, DNB has recently stated that Dutch banks are basically ready for Basel-III, if they are willing to raise the retention on profits and change the funding process. Obviously, the banking industry will need to respond, because this is a paradigm shift for the bigger banks, if they would like to be driven by shareholder value.

The bottom line is that Basel-II may be a good thing for the banking sector as a whole, but it is perceived to be bad for individual banks. Hopefully, this can now finally bring us to one of the key questions, which has been on the table for some time now. How could banks and regulation diversify, to make a distinction between "risk free banks" and "risk reward banks" ?

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