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*Research Paper*

# Was Basel III Necessary and will it Brings about Prudent Risk Management in Banking?

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## ABSTRACT

This paper investigates whether Basel III was necessary and whether it will brings about prudent risk management in banking. The result shows that Basel III was necessary, especially the proposals that had some very useful elements, as the leverage ratio, the capital buffer and the proposal which deals with pro-cyclicality through dynamic provisioning based on expected losses. Particularly, Basel III corresponded to the need for stability coming from the global crisis, raising minimum capital requirements and ensuring that other instruments that count as regulatory capital will genuinely be available wherever that is demanded. The Basel III offers the proper financial background to restore the financial health of banks so that they will willingly and actively deal with one another improving the general financial system. The result also illustrates that Basel III will brings about prudent risk management in banking. Basel III embraces several approaches to improve risk management practices at banks, including increased use of stress tests, more sophisticated models to account for various risks and greater emphasis on the cyclical nature of banking. All these proposals impact the Internal Capital Adequacy Assessment Process (ICAAP), strengthen internal risk governance, and cement the role of risk management in senior management with the increased independence of the Chief Risk Officer (CRO).

***Key words:*** *Basel III, Banking, Risk Management, Chief Risk Officer (CRO).*

## 1.0 INTRODUCTION

Sustainable economic growth depends on a healthy banking system in which financial intermediation between savers and investors facilitates efficient credit allocation (Laurens, 2012; Fullenkamp & Sharma, 2012; Basel Committee on Banking Supervision, 2010; Bootle, 2009; Wolf, 2009; Kerr & Nanda, 2008). Businesses (small, medium and large) and governments depend on banks to fulfil their role as financial intermediaries at a domestic and global level (Laurens, 2012; Basel Committee on Banking Supervision, 2010; Wolf 2009). In view of the importance of the services that banks provide to society, policymakers and regulators view the industry as too important to be left to the bankers without supervision and regulation, with the result that the banking industry is one of the most regulated and monitored industries (Tchana, 2008a; 2008b; Bank for International Settlements, 2008; Mishkin, 2000). The aim of prudential regulation and supervision is to create an environment in which the financial system can perform the functions required of it by society without undue risk to society (Laurens, 2012; Fullenkamp & Sharma, 2012; Mishkin, 2000).

Global banking crises have been ever-present during the past decade (Laurens, 2012; Reinhart & Rogoff, 2009), resulting in negative systemic consequences and significant bailout costs to governments. These financial crises have had a significant impact on bank regulation and supervision (Tchana, 2008a). Reforms are often focussed on correcting past abuses and failings, and the tendency is to introduce legislation that will prevent the last crisis (Filipiak, 2009). The global nature of banks and the interconnectedness of the global financial system require a harmonization of regulation and supervision activities to avoid regulatory arbitrage [1] (Laurens, 2012; Canova, 1995).

With increasing deregulation and globalization [2] beginning in the 1980s, banking systems have become more fragile and banking crises have proliferated, causing or aggravating economic downturns and leading to significant fiscal costs (Caprio & Klingebiel, 1999). To improve crisis prevention and management, many countries are working to upgrade their bank regulation and supervision. This is a complex and difficult process, particularly in developing countries, where the required expertise may be scarce, the legal environment weak, and governance problems may lead to regulatory capture (Demirgüç-Kunt, Detragiache & Tressel, 2006).

But what exactly is good regulation and supervision? To answer this question, in 1997 a group of representatives of bank supervisors from advanced countries [3] the Basel Committee on Banking Supervision- issued the Core Principles for Effective Bank Supervision (BCPs), a document summarizing best practices in the field. Most countries in the world have endorsed the BCPs and have undertaken to comply with them, making them an almost universal standard for bank regulators (Demirgüç-Kunt, Detragiache & Tressel, 2006; Scott-Quinn, 2012). The Basel III is therefore a comprehensive set of reform measures designed to improve the regulation, supervision and risk management within the banking sector (Demirgüç-Kunt, Detragiache & Tressel, 2006; Scott-Quinn, 2012). It is in view of this that this paper examines whether the Basel III was necessary and whether it will bring about prudent risk management in banking. The rest of the paper is organised as follows: Section 2 - Historical Review, Section 3 - Discussion & Analysis, and Section 4- Conclusion.

## 2.0 HISTORICAL REVIEW

### 2.1 Risk Management in Banking

The nature of banking generally exposes banks to risks ranging from credit risk, market risks and operational risk [4] (Paul-Choudhury, 1998; Wilson, 1997). However, it must be noted that these risks are asymmetric to banks (Mawutor, 2012). The financial risk of a banking organization is the probability of a transaction culminating into a favourable or adverse outcome (Raghavan, 2003). To achieve a favourable outcome of events, banks are expected to manage their risk factors effectively to minimize losses in order to maximize returns (Pandy, 2004).

In view of the services provided by banks, credit risk is one of the symmetric risks exposed to all banks. Credit risk is the probability that a customer/borrower may not be able settle it's short and long term financial obligation (Amediku, 2011). Interestingly, when banks lends money to customers, there is always a possibility on the part of the customer defaulting in payment, hence; the objective of credit risk management is to minimize the risk associated with loans and maximize the

[1] A practice whereby firms capitalize on loopholes in regulatory systems in order to circumvent unfavourable regulation (Laurens, 2012).

[2] The tendency of investment funds and businesses to move beyond domestic and national markets to other markets around the globe, thereby increasing the interconnectedness of different markets (Caprio & Klingebiel, 1999).

[3] Members come from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, United Kingdom and United States.

[4] A form of risk that summarizes the risks a company or firm undertakes when it attempts to operate within a given field or industry. Operational risk is the risk that is not inherent in financial, systematic or market-wide risk. It is the risk remaining after determining financing and systematic risk, and includes risks resulting from breakdowns in internal procedures, people and systems (Scott-Quinn, 2012).

bank's risk adjusted rate of return (RAROR) by projecting and maintaining credit exposures within an acceptable benchmark (Mawutor, 2012). Consequentially, credit risk is basically a combination of default risk and exposure risk. Exposure ceiling, review of renewals, risk rating models and risk based pricing are some of the tools employed in credit risk management (Mawutor, 2012).

Apart from credit risk, another possible risk injurious to the operation of banks is market risk. Market risk is a probable loss that may accrue to a bank as a result of changes in variables in the market variables (ACCA, 2011). These risks culminates into losses or gains in earnings as a result of variations in interest rates, exchange rates bond rates, equity/commodity prices (ACCA, 2011; Raghavan, 2003). Inevitably, market risks impacts on on/off balance sheet positions as a result of movement in interest rates, equity, forex rates and commodity prices (Casu, Girardone, & Molyneus, 2006). To successfully measure, monitor and manage banks' market risk, the existence of an effective market risk management system will provide comprehensive information for measuring liquidity, [5] interest rate exchange rates and commodity prices (Mawutor, 2012).

Another potential risk associated with financial institutions is operational risk. According to Tett (2012), the inability of management to access banks operational processes has a tendency of breaking down the internal controls of governance. It is normally characterised with human errors (Mishkin, 2000). Operational risk is the potential loss arising from failure or inadequate system such as internal controls, people or external events other than market and credit risk (Wilson, 1997). Break-down in these systems could serve as a conduit for internal and external fraud, negative employment practices, adverse effects on product and services, unsatisfactory delivery to customers and other system failures (PWC, 1996; Wilson, 1997). The real cause of most financial scams and some form of credit and market risks are caused by operational risks (Raghavan, 2003).

Risk management is the core function of every financial institution which involves discovering, measuring, monitoring and regulating of risk to ensure that mangers of such institutions clearly understand risk and reconcile risk decisions with firm's strategy and objectives (Sawyer, 2009; Raghavan, 2003; Mawutor, 2012). The Basel III therefore aims at helping banks to fulfill this risk management function successfully.

**2.2 Global Regulation**

The responsibilities of central banks include among others to provide regulatory and supervisory roles other the banking sector. However, they are not always the same, for example, during the generation of the first central Bank of Sweden, named Riksbank, in 1668, its main role was to lend the government funds and to develop the payment system, while when Bank of England was founded in 1694, and its main purpose was to mobilize money to fight the French (Amediku, 2011). The beginning of the nineteenth century was marked by the establishment of Banque de France by Napoleon in 1800. Its role was to stabilize the currency after the hyperinflation [6] of paper money during the French Revolution, as well as to aid in government finance (Bordo, 2007).

On the other hand, the United States of America had two central banks until 1836, but neither had been provided by any financial power. Later in the same century, the central banks shifted their strategy towards financial stability, because of the many severe crises such as the major international crisis of 1873. In the same time, the United States of America had no

[5] The degree to which an asset or security can be bought or sold in the market without affecting the asset's price.

[6] Extremely rapid or out of control inflation. Hyperinflation is a situation where the price increases are so out of control that the concept of inflation is meaningless (Benston, 1994).

central bank from 1836 until 1914 and experienced various financial crises followed by recession (Bordo, 2007). The most important event in the beginning of the twentieth century was the creation of The Federal Reserve System which started operation in 1914. In the period immediately after the depression, the question of what had caused it was central to enacting reforms intended to prevent future crises. This brought into being the famous Glass-Steagall Act [7] (GSA) of 1933 which imposed a strict separation between commercial banking, such as borrowing and lending, and investment banking, such as securities underwriting (Scott-Quinn, 2012, p.59). This was an essential feature of the National Bank Acts of 1863 and 1864 of USA established the principle of the separation of commercial and investment banking (Casserley, Härle & Macdonald, n.d; Grumet, 2009).

The restrictions of the GSA on the banking sector sparked a debate over how much restraint is healthy for the industry. Many argued that allowing banks to diversify in moderation offers the banking industry the potential to reduce risk, so the restrictions of the GSA could have actually had an adverse effect, making the banking industry riskier rather than safer. Subsequently, in November of 1999 Congress repealed the GSA with the establishment of the Gramm-Leach-Bliley Act, [8] which eliminated the GSA restrictions against affiliations between commercial and investment banks (Scott-Quinn, 2012, p.60; Reinholdson & Olsson, 2012).The Gramm-Leach-Bliley Act allows banking institutions to provide a broader range of services, including underwriting and other.

However, the Great Depression [9] created many expectations regarding the bank regulation not only in US but in almost every country. Amediku (2011) underlines that since that, the purpose of bank regulation emerged to be the avoidance of financial crises as well as to protect small depositors, to control systemic risk and supervise measures such as capital adequacy and reserve requirements. As a result, there were no banking crises from the late 1930s until the mid-1970s anywhere in the advanced world (Bordo, 2007).

The experiences of Great Depression had a tremendous effect on bank regulation in the U.S and in almost every country. Banks since then have been heavily regulated and in some countries, governments intervene in the financial system to allocate resources. The purpose of bank regulation therefore emerged to be avoidance of financial crises (Amediku, 2011). The objective of protecting small depositors and controlling systemic risk is cited as one of the primary arguments for bank regulatory and supervisory measures such as capital adequacy and reserve requirements (Amediku, 2011).

Potential losses resulting from these risks have metamorphosed into the global banking crisis (Reinhart &Rogoft, 2009). Further effect was the adverse operational and financial consequence requiring most of these banks being bailed-out by their respective government (Murphy, 2008). The severe effect on most of these banks culminated in the need to focus on developing a global financial regulation by international regulators (Schweder, 2011; Tsana, 2008). According to Borio and Filosu (1994), the outcome of the global banking crisis clearly indicated that global regulations and supervision among banks was imperative to harmonize specific border regulations and supervision. This strategy could integrate and avoid arbitrage in banking regulations (KPMG, 2011).

To mitigate the outcome of financial crisis, countries globally and some international a financial organization has formulated legislatures and policy guideline/standards (Mawutor, 2012). The

[7] The Glass-Steagall Act was sponsored by Senator Carter Glass, a former Treasury secretary, and Senator Henry Steagall, a member of the House of Representatives and chairman of the House Banking and Currency Committee (Grumet, 2009).

[8] The Gramm–Leach–Bliley Act (GLB) is also known as the Financial Services Modernization Act of 1999(Olsson, 2012).

[9] The Great Depression was a severe worldwide economic depression in the decade preceding World War II.

aim of this legislatures and standards is to develop standards and frameworks to supervise banks and other financial institutions to make them financially stable throughout the world (KPMG, 2011). One of these international organizations is Basel Committee on Banking Supervision (BCBS).

**2.3 What are Basel and its rationale?**

Long before the explosion of the 2008 global financial crisis, a committee of banking supervisory authorities of the G-10 countries mooted for the creation of standards to supervise and regulate the operations of banks in their member countries. In December 1992, Basel I [10] was developed by BCBS to strengthen banks financially by formulating provisions that will require banks to maintain a required capital base (Amediku, 2011). The main aim is to enable banks avoid losses through maintenance of a minimum capital adequacy and provide a harmonious field for banks globally (Raghavan, 2003). It provided for a minimum capital ratio of 8% from Tier 1 capital to be maintained by banks (PWC, 2011). However, the deficiency inherent in Base I culminated into the birth of Basel II (Amediku, 2011).

Basel II[11] was developed and introduced in 2004 to regulate and supervise banks, review their processes and ensure market discipline. It is built on three thematic pillars thus minimum capital requirement (pillar I), supervisory review processes (pillar II) and market discipline (pillar III). However, its implementation was stifled by challenges such as high cost of training staff, IT, discrimination among large and small banks, discrimination of countries in transitional period (Laurens, 2012). As a result of these difficulties encountered at the implementation stage, it became difficult for banks without any prudent risk management system to implement the provisions of Basel II (Gorton, 2009). These shortcomings reflected a clear evidence of provisional inadequacy in the Basel II accord, hence; necessitating the formulation and introduction of Basel III (Mawutor, 2012).

The Base III: A Global Regulatory Framework for More Resilient Banks and Baking System, which came into effect 2012/13 having a phase-in period up to 2019, has more complex requirements (Scott-Quinn, 2012, p. 389). Basel III is in part an outcome of the Group of 20 (G20) meeting that took place for the first time in 2008 and again in 2009 during the heat of the financial crisis when the heads of 20 major countries met together to consider how best to avoid a repeat of the crisis (Scott-Quinn, 2012, p. 389).The key elements of Basel III are:

- Basel III requires banks to maintain higher levels of capital, with minimum common equity holdings at banks increasing from 2% to 7% of risk weighted assets.
- Basel III requires banks to hold higher-quality forms of capital, with common equity at the core of the requirements, and standards to ensure other types of capital instruments are genuinely loss-absorbing.
- The new rules improve risk coverage, particularly for complex, illiquid trading activities and off-balance sheet exposures.
- A capital conservation buffer, designed to enforce corrective action when a bank's capital ratio deteriorates, and a countercyclical buffer to require banks to hold more capital in good times to prepare for the inevitable rainy days ahead.
- A leverage ratio as a backstop for the risk-based capital approach, to ensure banks do not become unduly leveraged on a non-risk-weighted basis.

[10] It was focused mainly on credit risk by creating a bank asset classification system. This classification system grouped a bank's assets into five risk categories.

[11] Basel II was to create standards and regulations on how much capital financial institutions must have put aside. Banks need to put aside capital to reduce the risks associated with its investing and lending practices

- Lastly, Basel III introduced the first ever international standards for bank liquidity and funding, designed to promote the resilience of a bank's liquidity risk profile to both short and longer-term disruptions.

Over and above these changes, the Committee has agreed additional capital requirements for those banks deemed systemically important at the global or domestic level. These reforms are designed to account for their negative externalities - the additional costs their failure would impose on society (Byres, 2012). The Basel III is therefore a comprehensive set of reform measures designed to improve the regulation, supervision and risk management within the banking sector.

## 3.0 DISCUSSION & ANALYSIS

### 3.1 Is Basel III Necessary

As mentioned before, Basel III examined the weaknesses that came from Basel I and II and tried to update many of the international standards according to the crisis demands and expectations. Thus, it is patently clear that Basel III was necessary, especially the proposals that had some very useful elements, as the leverage ratio, the capital buffer and the proposal which deals with pro-cyclicality [12] through dynamic provisioning based on expected losses (Siskos, 2014; Blundell-Wignall & Atkinson, 2010). Particularly, Basel III corresponded to the need for stability coming from the global crisis, raising minimum capital requirements and ensuring that other instruments that count as regulatory capital will genuinely be available wherever that is demanded (Siskos, 2014). There is no doubt that the reforms, both those already announced and those still in the pipe line, will make financial institutions more resilient, reduce the reliance of the private sector on central banks, and help tackle the too-big-to fail problem (Byres, 2012). There is a broad consensus that this is a comprehensive response to the lessons of the financial crisis, and will produce a banking system that is far more resilient, and less prone to excess, than was the case in the past (Byres, 2012). Basel III offers the proper financial background to restore the financial health of banks so that they will willingly and actively deal with one another improving the general financial system (Siskos, 2014; Byres, 2012).

In the pre-crisis years, the financial sector lived life to excess: the good times were difficult to resist, and little restraint was shown. The goal of a banking sector is operate in a manner that is competitive and financially sound (Byres, 2012). The global community would be failing in her duties to the public she serves if she did not learn and respond to the lessons of the recent past. The Basel III is therefore seen as the right response in that direction. With hindsight, it is easy to see that previous international minimum standards for bank capital were too low. Regulations were insufficient to act as a constraint on the natural incentive within banks to increase leverage, [13]not only did they allow leverage to reach very high levels; they also enabled that leverage to be built on a capital base which proved somewhat illusory when needed (Byres, 2012). This lack of true resilience within the banking system led to widespread and significant financial instability when the music stopped and markets abruptly turned away from risk-taking (Byres, 2012). Basel III responds to this experience by substantially raising minimum capital requirements, focused primarily on common equity, and ensuring that other instruments that count as regulatory capital will genuinely be available in times of need.

The decade to 2007 was one in which banks maximised, and were rewarded for, capital efficiency-high levels of equity capital were seen as a negative and, without much constraint applied by debt holders,

[12] A condition of positive correlation between the value of a good, a service or an economic indicator and the overall state of the economy (Siskos, 2014).

[13] The amount of debt used to finance a firm's assets. A firm with significantly more debt than equity is considered to be highly leveraged (Scott-Quinn, 2012).

bank management became very focused on finding ways to return capital to shareholders (Byres, 2012; Lartey, 2012). Capital strength is a competitive advantage[14] at a time of fragile markets and weak economic conditions. In such an environment, only strong banks have the trust of their counterparties to enable them to borrow without difficulty, and therefore to lend confidently. Weak banks can do neither (Byres, 2012; Blundell-Wignall & Atkinson, 2010).Basel III is the foundation for restoring the financial health of banks, including so that they will willingly and actively deal with one another, which is in turn critical to restoring the functioning of the financial system more generally.

A robust set of international banking standards is critical for the future. At a time when concern is justifiably being expressed about fragmentation of the financial system, preserving the foundation for a competitive international banking landscape in the future has never been more important (Byres, 2012; Went, 2010). In responding to the crisis, it is critical to avoid a patchwork of diverse national measures which act as a barrier to cross-border banking business. Fully, timely and consistent implementation of internationally agreed standards makes it far easier for banks to operate and compete internationally (Byres, 2012; Schüler, 2003). The consistent implementation of Basel III consistently around the world will help provide the foundation on which banks can expand and compete in the international marketplace.

**3.2 Will Basel III bring about prudent risk management in banking?**

The Basel III embraces several approaches to improve risk management practices at banks, including increased use of stress tests, more sophisticated models to account for various risks and greater emphasis on the cyclical nature of banking (Went, 2010). All these proposals impact the Internal Capital Adequacy Assessment Process (ICAAP),[15] strengthen internal risk governance, and cement the role of risk management in senior management with the increased independence of the Chief Risk Officer (CRO). The Committee emphasises the independence of the CRO from individual business lines and suggests that the CRO should report directly to the chief executive and the bank's board of directors (Went, 2010). This would ensure that as any potential risk identified by the CRO would be directly communicated to the highest decision making body of the bank without any intermediary and would enhance quick response than passing through the normal reporting channel.

Learning from the crisis, supervisory focus will increase on various specific risk management areas, including the emergence of embedded risk concentrations throughout the asset and liability base of banks. The financial crisis demonstrated that securitisation[16] transactions with the same counterparty create on-balance sheet positions with off-balance sheet liabilities, and can create risk management problems, which also have reputational implications (Went, 2010). As the proposals emphasize the need to incorporate the results of various stress tests in the computation of the regulatory capital requirements, stress testing emerges as a core risk management and regulatory instrument (IIF, 2010). Moreover, given the potential role contingent capital can play in supporting the survival and the ongoing viability of a bank in duress, the nature of stress tests change as well. Accordingly, stress tests should also consider the dynamic effects on regulatory capital, thus the inability of the bank's own capital to absorb losses (IIF, 2010; Byres, 2012).

Unlike the previous capital requirements, Basel III provides measures to mitigate the risks of externalities associated

[14] Competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors (Byres, 2012).

[15] The ICAAP is that part of the Pillar 2 assessment undertaken firms.

[16] Securitisation is the process of taking an illiquid asset, or group of assets, and through financial engineering, transforming them into a security (Gallant, 2009).

with systemic banks, such as liquidity surcharges, tighter large exposure limits, and enhanced supervision (Lartey, 2012). The operational requirements also maintain an early provision that the stock be "under control of the functions charged with managing the liquidity risk of the bank" (IIF, 2010). Banks take in retail and interbank deposits and invest the proceeds in risky retail or interbank loans. In doing so, the banks are only interested in cash flows which accrue in states other than bankruptcy, [17] hence limited liability is assumed. Stolz (2002) argues that this convex pay-off structure encourages banks to increase asset risk, which increases the expected pay-off. With this in mind, any initiative by the bank to reduce portfolio risk would eventually lower the probability of failure and, hence, the probability of losses to depositors and of negative systemic impacts (Stolz, 2002).

While bank regulators of most countries usually prefer to adopt banking standards informally and behind the scenes (Usui, 2003 as cited in Lartey, 2012), the Basel III capital requirements provide regulators with standard means of promoting sound corporate governance and improving their bank supervision function. Without attempting to synchronize member countries' supervisory procedures, the Basel Committee on Banking Supervision promotes convergence towards common approaches and standards (Schüler, 2003). With the introduction of global liquidity standards, risk management will identify, measure, and control liquidity risks and further integrate liquidity risk management when managing credit, market, and operational risks (Went, 2010, Schüler, 2003). Assessing the risks of intra-day liquidity positions, managing counterparty credit and bilateral exposures - particularly when considering complex securitised and other products - will require banks to design and implement early warning indicators. By integrating various risk management activities ranging from credit risk, through funding risk, to counterparty credit risk, the increasing convergence of risk management process and practices directly emerges from the Basel III proposals (Went, 2010).

In line with revisions to market risk framework, the Basel III framework provides further details on new incremental risk charge (IRC) for trading book risks, which will supplement the existing value-at risk (VAR) modeling framework as well as enhance the treatment of risk concentrations, off-balance sheet exposures and securitisation (Lartey,2012). Finally, the more stringent capital requirements would increase the demands on the more effective use of all available bank capital, which emphasises the role of both capital and risk management.

## 4.0 CONCLUSION

Since the beginning of the financial crisis in 2007/08, an impressive amount of regulatory reform has been enacted- not just by the Basel Committee, but also by the other international standard setters. Of course, it needed to be done (Byres, 2012). The crisis highlighted the many weaknesses in the regulatory regime that existed at that time. But that does not undermine the tremendous effort that has been put in over the past few years to significantly overhaul the international regulatory architecture. The result of this study agrees that Basel III is necessary (Byres, 2012; Lartey, 2012; Went, 2010; Schüler, 2003; Stolz, 2002; Siskos, 2014; Blundell-Wignall & Atkinson, 2010). There is therefore no doubt that the reforms will make financial institutions more resilient, reduce the reliance of the private sector on central banks, and help tackle the too-big-to-fail problem.

Not with standing, it is worthy to note that Basel III is not sufficient because the writer agrees with other authors, for example, Byres (2012) that the following aspects need improvement:

[17] Cannot repay the debts it owes to creditors. In most jurisdictions, bankruptcy is imposed by a court order, often initiated by the debtor.

Basel III helps lift the financial health of the banking system, but needs to make sure there are no remaining weaknesses in the prudential framework that will undermine the substantial improvements we are making elsewhere.

The need to ensure robust implementation. That means more than just having a set of local rules titled ‘Basel III’. To achieve the goals of the policy reform, there is the need to make sure the reforms are implemented by national authorities in a full, timely and consistent manner.

The rules alone, no matter how well written and how consistently implemented will not be enough to deliver the financial health and stability of the banking system that is desire. Basel III has designed the fitness regime, and working to ensure it is correctly translated into local languages, but without supervisors encouraging, coaxing, and cajoling banks to stick to the programme, and occasionally reprimanding the laggards, goals would not be met. [18]

The result also upholds that the Basel III will bring about prudent risk management in banking (Byres, 2012; Lartey, 2012; Went, 2010; Schüler, 2003; Stolz, 2002; Siskos, 2014; Blundell-Wignall & Atkinson, 2010).Basel III regulations would make banks more resilient, reduced the reliance of the private sector on central banks, and help tackle the too-big-to-fail problem. Generally, the implementation of Basel III may well represent the most significant series of steps and challenges in managing risk.

However, it is worth mentioning that Basel III cannot be relied upon to deliver stability on its own, but banks should push on with the reform agenda to deliver full, timely and consistent implementation. As Adamson (2012) refers, the road to achieve a mature risk-management model is a long and complex one and each bank should individually implement a well-defined risk management strategy that increase the likelihood of a well-structured implementation of the Basel Program. Basel III is a new step in financial system regulation; its long-term success depends on the political will to implement these broad-based macro-prudential principles.

[18] There is the need to upgrade supervisory capabilities, demonstrating resolve to act in good times and not simply when faced by impending crisis.

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