

Topic and Research Question

Banks are seen as the backbone of the economy and finance is vital for economic growth and the reduction of poverty. However, banking crises are neither a recent phenomenon nor uncommon. Moreover, financial crises have become more severe in terms of costs for the economy (Rochet 2008, 21). Simultaneously, the banking sector has transformed rapidly in the last decades and is subject to ongoing innovation. Increased globalization of the banking system has come with an increased competition and weakened regulatory standards. The growing interconnectedness of economies leads to a higher systemic risk, and the 2008 financial crisis has shown the effects of such an interconnectedness among banks around the world. An understanding of the regulations targeting the health and resilience of banks in the rapidly developing, evolving, and globally important economies of North East Asia is therefore important. This Master Thesis thus aims at answering the following research questions:

- What are the differences and similarities in the micro-prudential regulations for and the supervision of banks in China, Japan and the Republic of Korea?
- Based on the comparison, what are the implications for policy makers trying to maintain financial stability?

State of the Art

The health and resilience of a bank and the definition of financial stability are closely linked. It is measured by the ability of a bank or the system to withstand internal and external shocks and keep up its normal functions (Trapanese 2009, 13). Micro-prudential regulations are regulations that are preventive (not protective) measures against financial crises in place for institutions on a single-level. The assumption is that if all the individual institutions are healthy and resilient, so is the financial system as a whole (Brunnermeier et al. 2009, 14).

Banks face systemic, contagion, operational, credit, market, and liquidity risk. Even though there are abundant institutions covering banking regulation, i.e. the IMF, the BCBS, the FSAP, scholarly works on the topic are often limited to one segment of the regulation, i.e. the entry requirements (Barth et al. 2006). Or those works analyse the implications of regulation on the banking and financial sector, for example the negative effect of regulation on lending (Tchana Tchana, 2012).

The research on the existing frameworks has shown that the criteria enlisted in them target a holistic approach whose core objective is to safeguard financial stability (Fell and Schinasi 2005, 107). There is also an accord that prudential regulation in combination with effective supervision is the best way to ensure that the financial institutions and systems are the most resilient possible (Barth et al. 2004, 28; Rochet 2008, 21; The World Bank 2013, xi).

Methodology and Approach

The methodology employed was a comparative study between the three countries. There is a consensus that there is no universally adopted framework to assess and monitor a bank's health and resilience that guarantees financial stability (Armour et al. 2016, 617; Fell and Schinasi 2005, 102; Trapanese 2009, 7). However, the framework employed combines aspects of several different frameworks, such as the FSIs, Basel frameworks, CAMEL(S), as well as the findings of several authors, such as Barth et al. (2006), Downing (2019) and Fight (2014), mirroring a holistic approach. The Analytical Framework is split into *micro-prudential regulations for banks* and *supervision of banks* which each contain several sub-criteria taken from the respective frameworks and authors.

Micro-prudential Regulations for Banks	
Entry Requirements	Requirements for Entry into the Banking System
	Limitations on Foreign Entry and Ownership of Domestic Banks
	Percentage of Foreign Entries Rejected
Accounting Standards	What (international) accounting standard does the country adhere to?
Ratios	Capital Adequacy
	Asset Quality
	Liquidity
Buffer Requirements	Capital Conservation Buffer
	Countercyclical Capital Buffer
Deposit Insurance	Does a deposit insurance exist?
	How high is the amount insured?
Supervision of Banks	
Supervising Authority	Single or Multiple Authorities
	Central Bank as Supervisor
	Accountability
Disclosure Requirements	Official Disclosure Requirements
	On-Site and Off-Site Supervision
	Required Data Disclosure

Source: sources and analysis cited in the study. Author's simplified design, full design listed in the study.

Main Facts

Micro-Prudential Regulations for Banks

Entry Requirements: for China and Japan all criteria listed need to be disclosed by banks before they obtain their license. In South Korea, there is no obligation to disclose the draft by-laws, nor the background/experience of the future directors and managers. Based on the empirics, there is no limitation to the entry of an entity in any of the countries in question.

Accounting Standards: there are local accounting standards applied in all three countries with an indication of possible convergence to the IFRS standard.

Ratios: the countries either adhere to, except in one case (Japan – minimum leverage ratio), or exceed (China, minimum leverage ratio; China and South Korea – minimum liquidity coverage ratio) the ratios set by the BCBS.

Buffer Requirements: the countries adhere to the Capital Conservation Buffer set by the BCBS and all have a Countercyclical Capital Buffer that stands at 0%.

Deposit Insurance: all three countries nowadays have a deposit insurance system in place, however, the amounts insured vary. China has an insurance covering up to 500.000 RMB (approx. 60.987 EUR), Japan offers a full coverage and South Korea has an insurance up to 50 Million KRW (approx. 35.506 EUR).

Supervision of Banks

Supervising Authority: in all three countries there is a single supervising authority. In China this is the China Banking Regulation Commission (CBRC), in Japan it is the Financial Services Agency (FSA) and in South Korea this is the Financial Supervisory Service (FSS). Neither of them are at the same time the central bank. The CBRC is accountable to the executive branch, the FSA to the legislative branch, and the FSS is accountable to the executive branch of the respective government.

Disclosure Requirements: all three countries have official disclosure requirements and require some form of on-site or off-site supervision in addition. The required data disclosure comprises many identical points, however some differ. In China, various types of risk and risk management conditions, and corporate governance information have to be disclosed in addition. In Japan, fines and settlements caused by non-compliance with regulations need to be laid open. And in South Korea,

detailed information which include business performance and important facts, need to be disclosed.

Results

An overall convergence of regulatory requirements for banks and their supervision can be identified among the countries in question, with certain slight differences. Based on the empirics and on the public interest approach, 13 implications for policy makers could be singled out. These include implications for more transparency, compliance with international standards and unification of standards across the countries in order to overcome regulatory arbitrage.

This Master Thesis attempted to compare the different regulations for banks in China, Japan and South Korea. Subsequent research on the topic of the ratios would be beneficial to understand how differences among them lead to different outcomes in different countries, as well as including more of the ratios listed in the frameworks. Further qualitative research would be beneficial in the areas of policy making regarding banks in the three countries, as well as a comparison over time. This would help to understand how the ideal regulatory framework looks like.

References

All references can be found in the full version of the MA thesis available at <http://othes.univie.ac.at>.

About the Author

Valérie Helbling obtained her B.A. in Sinology and Arabic Studies at the University of Geneva, including an exchange year at the Renmin University in Beijing and exchanges in Morocco and Oman, before starting her Master at the University of Vienna. She currently is pursuing her second Master at the IMC Krams on the topic of International Business and Economic Diplomacy.



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