Governance, Regulation and Risk Taking :

The case of Asian countries

ABSTRACT

This paper examines the impact of ownership concentration, regulation and risk taking. Consistent with the theories, we find large owners with substantial cash flow rights increase bank's risk taking. Furthermore, the current regulation focusing on liquidity standards such as the current ratio and loans to deposits ratio do not directly influence risk taking while the capital standard does. Since 2009, Basel III has been introduced which will become the new minimum requirement banks have to comply with in the near future. The new liquidity ratio called net stable funding. We find that this new requirement helps increasing stability of the banks in other words decrease bank's risk taking. In addition, we conclude that the capital adequacy ratio and the net stable funding ratio are complemented in shifting banks to fund longer term liabilities and invest in the less risky assets to strengthen the resilience to the banking sector.