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ANALYTICAL STUDY OF BASEL NORMS AND INDIAN BANKING SYSTEMS

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ABSTRACT

The set of the agreement by the Basel committee on Banking Supervision (BCBS), which mainly focuses on risk to banks and the financial system are called Basel Accord/Norms. The Indian banking system is broadly classified into scheduled and non-scheduled banks. Indian banking system adopted two norms out of three Basel norms till date, Basel norms 3 requirements (minimum capital and liquidity, risk management & market discipline) are not fulfill by Indian banking institutions. Hence, Indian banks to need improve own capital structure, leverage, funding, liquidity and overall performance. In the present paper we discuss about relationship between Basel norms and Indian Banking Systems. How to improve Indian banks overall performance for implementation of Basel III norms, because Basel III norms are more reliable for global liquidity standard and supervisory monitoring.

Keywords: Basel Norms, Capital Adequacy Ratio (CAR), Capital Tier, Indian Banking Regulation Act, 1949 and Reserve Bank of Indian Act, 1934.

I. INTRODUCTION

Basel is a city of Switzerland and which is also know the headquarters of Bureau of International Settlement (BIS). BIS helpful among central banks with a common goal of financial stability and regular standards of banking regulations. The BIS established on 17 May 1930, is the world's oldest International financial organization. There are two representative offices in the Hong Kong and Mexico City. In Bureau of International Settlement (BIS), 60 member countries from all over the World and approx 95% of the World GDP cover by these countries. The set of the agreement by the Basel committee on Banking Supervision (BCBS), which mainly focuses on risks to banks and the financial system are called Basel Accord/Norms. The purpose of Basel Norms is to ensure that financial institutions have enough capital on account to meet the liabilities and absorb unexpected losses. India has accepted Basel Accord for banking system. In India, banking is mainly governed by two act first, the Banking Regulation Act, 1949 second, the Reserve Bank of India Act, 1934. After the globalization and liberalization large number of foreign banks came to India, increase number of risks. Moreover, In India public sector banks are facing such risks like- over-staffing, confrontation to adopt latest technology, etc. because they do not have the type of flexibility that is possessed by Indian private sector banks and foreign banks. Hence, no doubt to say that public sector banks is facing serious challenges from new private sector banks and foreign banks. Behind this there are various risks faced by the banks such as credit risk, market risk, operational risk, liquidity risk, etc.

II. LITERATURE REVIEW

As a research paper "Basel Regulatory Capital Norms: Impact on Commercial Banks in India" by Ratna B, Malabika R. & Ajitava R. – Under Basel III total additional capital requirement of PSU banks would be in the range of Rs. 1.6 Lac crore to Rs. 4.8 Lac crore during 2015-2019, under various scenarios. Banks would also need to focus on strengthening risk management system maintaining stable and stronger assets portfolio. As a research paper "An Overview and Emergence of Basel Accords" presented by Pinky Soni and Dr. B. L. Heda in (2015) - This paper sets out to examine the appropriateness for emerging market economies to implement a new set of capital requirements as recommended by the Basel Committee on Banking Supervision. "The Impact of the Basel Accord on Greek Banks: A Stress Test Study" by John Leventides and Anna Donatou - In this paper, we study the impact of extreme events on the debt portfolios of the Greek banking system. SHANTHANA LAKSHMI. M (2016), in their paper entitled on "A Structural Adjustments on Basel I&II Norms Capital Adequacy Ratio and Ladder to Shift Basel III Norms" This study on two phase first phase tells about the sample banks taken for analysis. The second phase is testing the significance of Tie 1 and Tier 2 Capital and the last phase has the conclusion of how these banks can achieve the Basel III norms. The Basel III Norms thereby aim at strengthening the banking system in the country to resist all kinds of risk and financial shocks. The transformation process has its level of adequacy for the participant banks. In overall the paper not consider Basel Norms and Indian Banking System properly correlation. So, in that paper "Analytical Study of Basel Norms and Indian Banking System" properly correlation between Basel Norms and Indian Banking Systems.

III. OBJECTIVE OF STUDY

The study is base on the following objectives:-

To know about Basel Norms and Indian Banking Systems
To Analytical study of Basel Norms and Indian Banking Systems
To make specific suggestions on the basis of study

IV. RESEARCH METHODOLOGY

The study is concerning with Basel and Indian banking sector. To achieve the objectives of the study, secondary data use. Information has been gathered from Annual reports of the banks and RBI, RBI bulletin, Banks records, Published and unpublished financial reports, Websites of RBI and other published research paper.

V. ABOUT BASEL NORMS

Basel norms are the international banking regulations issued by the Basel Committee on Banking Supervision time to time. The Basel norms are an effort to coordinate banking regulations across the globe, with the goal of strengthening the international banking system. It is set of the agreement by the Basel committee on Banking Supervision (BCBS), which mainly focuses on risks to banks and the financial system. The purpose of Basel Norms is to ensure that financial institutions have enough capital on account to meet liabilities and absorb unexpected losses. India has accepted Basel norms for the banking system.

VI. NDIAN BANKING SYSTEMS

Indian banking systems are divided in different groups and each group has their own benefits and limitations in their work. They have their own dedicated target market. Some are concentrated their operation in rural sector while others in both rural as well as urban. The Indian banking system is widely classified into scheduled and non-scheduled banks. The scheduled banks are those included under the 2nd Schedule of the RBI Act, 1934.The scheduled banks are divided or classified into- nationalized banks, State Bank of India, Regional Rural Banks (RRBs), foreign banks and other Indian private sector banks. The SBI has merged with own Associate banks than create the largest Bank in India on 01.04.2017. After this merger SBI has a global ranking of 236 on Fortune 500 index. In India commercial banks refer to both scheduled and non-scheduled commercial banks regulated under the Banking Regulation Act, 1949 and Reserve Bank of India Act, 1934.

VII. ANALYTICAL STUDY OF BASEL NORMS AND INDIAN BANKING SYSTEMS

The set of the agreement by the Basel committee on Banking Supervision (BCBS), which mainly focuses on risks to banks and the financial system are called Basel Accord/Norms. Basel Accord/Norms is three- Basel I, Basel II and Basel III.

At the present time three Basel Accord- I, II, & III. Before coming to that we have to know about these terms:-
Capital Adequacy Ratio or Capital to Risk weighted Assets Ratio = Total
Capital*100/RWA.
Here,
Total Capital = tier I +tier II capital
RWA = Risk Weighted Assets
Tier I – The tier I capital is the core capital: Paid-up capital, Statutory Reserves, other disclosure free reserves, Capital reserves which represent surplus arising out of the sale proceeds of the assets, other intangible assets belong from the category of Tier I capital.

Tier II – tier II capital can be said to be subordinate capitals:-

Undisclosed reserves, Revaluation reserves, General provisions and loss reserve, Hybrid debt capital instrument such as bonds – long term unsecured bonds , Debt capital instruments etc. belong from the category of tier II capital.

Risk weighted Assets :- Risk weighted Assets means assets with different risk profiles; it means that we all know that is much larger risk in personal loans in comparison to the housing loans, so with different types of loans risk percentage on these loans also varies.

Basel norms are-

Basel I - The Basel committee on Banking Supervision (BCBS) introduced capital measurement system called Basel capital accord, also called as Basel I norms in 1988. It focused almost entirely on credit risk. In Basel I, define capital and structure of risk weights for banks. According to Basel I guideline 8% of risk weighted assets (RWA) was fixed for minimum capital requirement. RWA means assets with different risk profiles for example an asset backed by collateral would carry low risks as compared to personal loans, which have no security or guarantee. Assets of banks were divided into five categories to credit risk weight of 0,10,20,50 and up to 100%. Assets like cash and coins usually have zero risk weight, while unsecured loans (loan without collateral) might have a risk weight of 100%. India adopted Basel 1 guidelines in 1999.

Basel II - Basel II guidelines were published by the Basel committee on Banking Supervision (BCBS) in June 2004, it was considered to be the refined and reformed versions of Basel I accord. The guidelines were based on three parameters, it is known as three pillars. Pillar I- Capital Adequacy Requirements: Banks should maintain a minimum capital adequacy requirement of 8% of risk assets. Pillar II- Supervisory Review: According to this, banks were needed to develop and use better risk management techniques in monitoring and managing all the three types of risk is face by banks viz. credit, market and operational risks. Pillar III- Market Discipline: This need increased disclosure requirements. Banks need to mandatory disclose their capital adequacy ratio (CAR), risk exposure, etc. Basel II norms implementation in India was 31 March 2009.

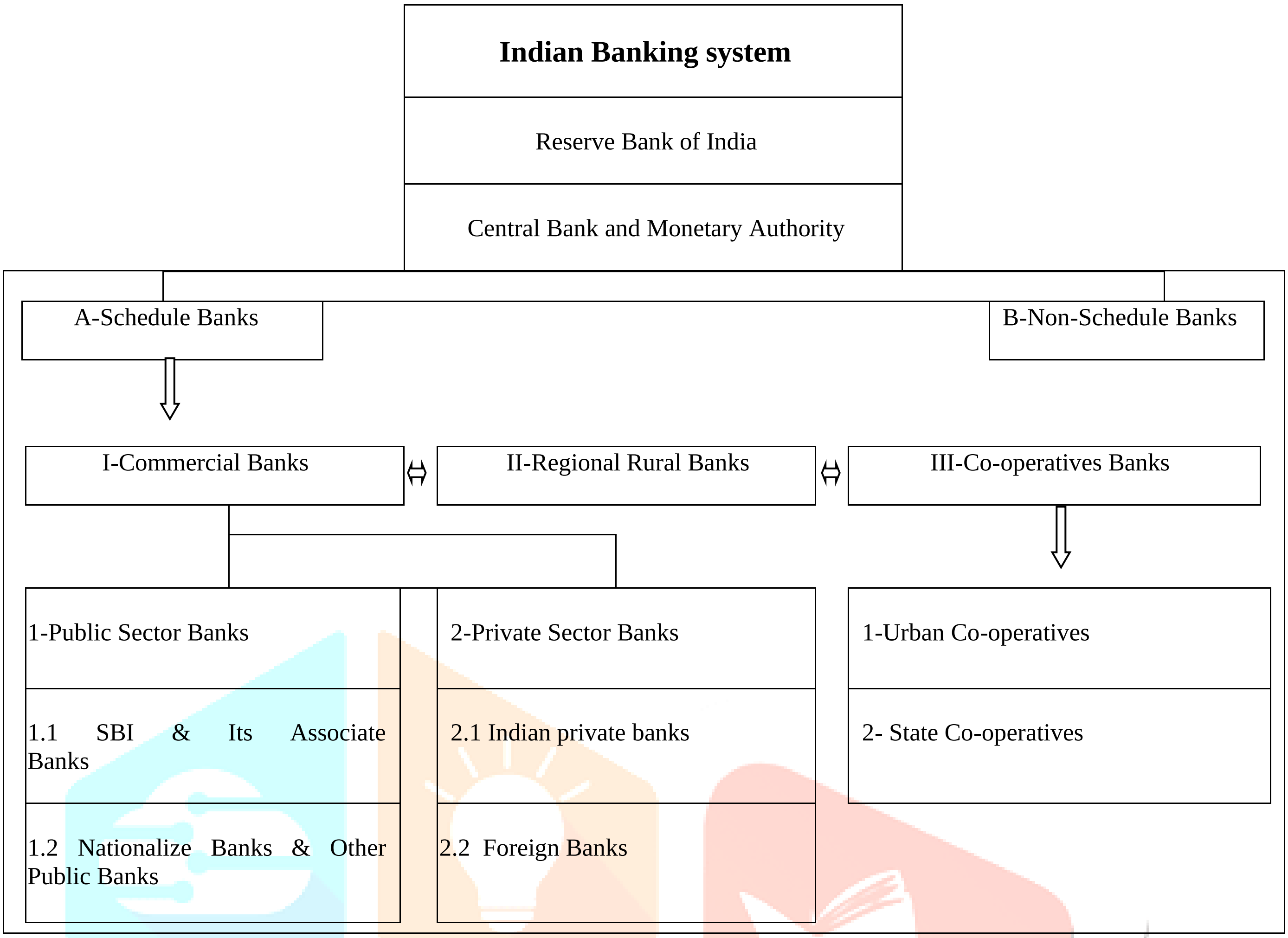
Basel III - Basel III guidelines was introduced in response to the financial crisis of 2008, and guideline was released in 2010. A need was felt to further strength the system as banks in the developed economies were low capital, maximum leveraged and had a greater reliance on short-term funding. Also the quality and quantity of capital was deemed insufficient to contain any further risk under Basel II and the aim of Basel norms III try to make, trading book activities more capital-intensive of banks. Basel norms III guidelines aim to raise a more resilient banking system by focusing on four vital banking parameters viz. capital, leverage, funding and liquidity. Basel III is focus on three pillars-
Pillar I - capital, risk coverage and containing leverage
Pillar II - risk management and supervision
Pillar III- market discipline
Overall Basel III norms are more reliable for global liquidity standard and supervisory monitoring.

The Indian banking systems are mainly depending on two act i.e.
1- Indian Banking Regulation Act, 1949
2- Reserve Bank of India Act, 1934

The **Banking Regulation Act, 1949** is legislation in India that regulates all banking institutions in India. Banking Companies Act 1949 was passed and it came into force from 16.03.1949. Banking companies Act 1949 modified to Banking Regulation Act 1949 from 1 march 1966. In Jammu and Kashmir, it is applicable from 1956. Initially, Act was applicable only to banking companies. But amended in 1965, it was to make it applicable to co-operative banks and to introduce other modifications. In 2020, it was amended (change) to bring the co-operative banks under the supervision of the Reserve Bank of India.

Reserve Bank of India Act, 1934 is the parliamentary act under the Reserve Bank of India (RBI) was formed. This act along with the Companies Act, which was amended in 1936, was meant to provide a framework for the supervision of banking institutions in India.

A structure of Indian Banking Systems is divided into two parts, first is schedule banks and second is non-schedule banks. In India Scheduled Banks refer to those banks which have been included in the second schedule of Reserve Bank of India (RBI) Act, 1934. RBI in turn includes only those banks in this schedule which satisfy the criteria under section 42(6) (a). Banks not under this Schedule are called Non-Scheduled.



VIII. IMPORTANT SUGGESTIONS ON THE BASIS OF STUDY

- The banking practices and technology need to be upgraded.
- Encouraging them to utilization of certain facilities from the banking system including the RBI.
- These banks should be encouraged to become corporate bodies rather than continuing as family based enterprises for good customer relationship.
- All banks compulsory to need follow the guideline of RBI for given loans and NPAs recovery.
- The banking system need to analyzed risk before investment.

IX. DISCUSSION AND CONCLUSION

Basel norms are accepted world-wide by many nations, in which one is India. At the present time three Basel norms, in which two are India already adopted (Basel I & II). India not adopted the Basel III till date, because Indian banks are not fulfilling the Norms of Basel III. Extending more time implementation of Basel III means lower capital burden on the banks in terms of provisioning requirement including the Non-performing Assets. Indian banking system need to regular update their rules and regulation according to time. All banking institutions follow the updated guideline of Indian Banking Act and Reserve Bank of India. Indian Government support for increase banks profitability and capital. We can see previous 5-6 years Government main focus to banks achieve their requirement for adoption of Basel III norms. In this regarding, Government takes many difficult decisions like banks merger for capital growth and increase profitability. Hence, Indian Bank needs to improve these issue & challenges for implementation of Basel III Norms- Additional Capital, Growth barrier, Profitability of banks, Risk management. If the Indian Banking Systems adopt Basel III Norms, than banking capital structure and NPAs will be improved.

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