A Study on Opportunities and Challenges in Implementation of Basel III

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Abstract: The Basel I, Basel II and Basel III are international agreements regulating general rules in the banking. Basel Committee has arrived at Basel to improve the risk management of depository financial institutions so that banks can exist even though market collapse. The current research is aimed to know opportunities and challenges in implementation of Basel III. The survey was carried out in Ahmedabad and Gandhinagar city of Gujarat. Managers of the banks were taken as the sample unit. Sample size was 30 for the current research. Self-developed questionnaire was used to get responses from the respondent. This study is descriptive in natures and sample units are selected on the convenience bases and personal interview was conducted for more accurate responses.

***Index Terms* - Bank, Basel Norms.**

I. Introduction

The Banking Industry was once a simple and reliable business that took deposits from investors at a lower interest rate and loaned it out to borrowers at a higher rate. However, deregulation and Technology led to a gyration in the Banking Industry that saw it transformed. Banks have become global industrial power stations that have created ever more complex products that use risk and securitization in models. Through technology development, banking services have become available 24 hours a day, 365 days a week, through ATMs, at online banking, and in electronically enabled exchanges where everything from stocks to currency futures contracts can be traded. The banking industry at its core provides access to credit. In the lender's case, this includes admittance to their own savings and investments, and interest payments on those criteria. In the case of borrowers, it includes access to loans for the creditworthy, at a competitive interest rate. Banking services include transaction services, such as verification of account details, account balance details and the conveyance of funds, as well as consultative services that facilitate individuals and institutions to properly plan and manage their finances. Online banking channels have become key in last 10 years. The collapse of the banking industry in the financial crisis, however, means that some of the more extreme risk-taking and complex securitization activities that banks increasingly engaged in since 2000 will be fixed and carefully looked out, to assure to it that there is not some other banking system meltdown in the hereafter. Mortgage banking has been hiding for the publicity or promotion of the various mortgage loans to investors as well as individuals in the mortgage business. The online banking service has jumped up the banking practices easier worldwide. Banking in the small business sector plays a substantial role

II. LITERATURE REVIEW

Richard Herring (2009) conclude that Basel II has improved bank safety and soundness and then we want to know is the Basel III will also improve bank safety and soundness or not, and if it improves then similar as Basel II or more than Basel II. Other than this author has also concluded there are a number of areas where improvements can be built which will strengthen the Accord and also bring about changes in risk management. Then we want to distinguish those areas are focused in Basel III or not by delegation.

Tschemernjak (2004) finds that banks will encounter challenges in implementing Basel II. Full compliance will be unwieldy because of deficient data, inadequate data warehouse and inadequate data architecture. The trace is made that banks should be looking at filling the data challenges associated with a Basel II implementation by leading an integrated data access, rather than solving the above issues in a linear way. So if the Basel II implementation is a challenge for banks then its enhanced version must be disputed. And so what are those challenges that we need to see in this report.

According to Jahar Bhowmik and Soumasree Tewari (2005) Basel II implementation was in the short run, implementation of the new accord may pose great difficulties and cost in terms of mechanization of the banking system, for the commercial banks, but in the long run, this pact is required to strengthen the overall fiscal system of the country.

Brealey (2006) starts his story by quoting Jean-Claude Trichet, the Chairman of the G-10 group of central bank governors, when he welcomed in the second Basel Accord. Brealey quotes Trichet by saying that the new Accord "will enhance banks' safety and soundness, strengthen the stability of the financial system as a whole, and improve the financial sector's ability to serve as a source for sustainable growth for the broader economic system". Brealey views this rosy outlook with some degree of skepticism. His story is split down into three segments as follows: A review of bank bankruptcies, a rule for regulating bank capital, the causal agents of effective capital adequacy. Bradley concludes his paper that Regulations relating to capital standards have not prevented banking crises so we need to search that the new Basel III norm is capable to prevent banks from crises.

Risk Insights for the Basel III, like capital requirements, credit conditions for small and medium-sized company's impact on the availability of financing in the savings. New rules on trade financing are likely to result in tighter trade credit conditions, encouraging companies to use less secure instruments., As banks increase their capital ratios by reducing lending, access to credit is likely to become more difficult and borrowing costs are liable to increase. Nevertheless, the long implementation timeline and the fact that many major banks' capital ratios are above the Basel III standards will likely weaken the shock of the new regulation on lending, particularly for major fellowships. Moreover, as the new rules leave out non-bank financial institutions, bigger companies might see other ways of financing, such as by raising equity or issuing debt, Small and medium-sized houses are likely to have more difficult credit conditions, as the new rules affect mostly small financial institutions; moreover, raising equity or issuing debt will carry on to be a much more expensive alternative for small and medium-sized commercial enterprises than for major fellowships.. Amongst all of the debate along the new proposals, it is worth mentioning that the fundamental approach introduced by Basel 2 for determining credit risk weighted assets through internal models has not altered. Banks should therefore keep in mind that regulators will continue to concentrate on risk management and governance in underpinning a robust financial sector. Agreeing to the BCBS, the Basel 3 proposals have two main objectives to strengthen global capital and liquidity regulations with the goal of encouraging a more resilient banking sector; and to amend the banking sector's ability to absorb shocks arising from financial and economic strain.

III. METHODOLOGY

The study was extended out in Ahmedabad and Gandhinagar city of Gujarat. Managers of the banks were taken as the sample unit. Sample size was 30 for the current research. Self-developed questionnaire was used to get responses from the respondent. This study is descriptive in natures and sample units are selected on the convenience bases and personal interview was conducted for more accurate responses.

IV. RESULTS AND DISCUSSION

Table 1 loophole in Basel I?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	20	66.7	66.7	66.7
	No	10	33.3	33.3	100
	Total	30	100	100	

There were 67% respondents, who said that loopholes in Basel I. because of that the need for Basel II arises. 33% respondents said that there were no loopholes in Basel I but to strengthen the Risk management and financial position of banks advanced Basel accord came

Table 2 Any loopholes in Basel II?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	24	80	80	80
	No	6	20	20	100
	Total	30	100	100	

There were 80% respondents, who said that loopholes in Basel II. Because of that the need for Basel III arises. 20% respondents said that there were no loopholes in Basel II but to strengthen liquidity, leverage ratio of banks advanced Basel accord came.

Table 3 As per your opinion which approach is better as Risk parameter?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Standardize Approach	12	40	40	40
	Other	18	60	60	100
	Total	30	100	100	

60% of respondents are thinking that other models are better as risk parameter. This model includes foundation IRB and Advanced IRB. Bank are also using credit rating agency to manage the risk.

75% respondents agreed that Basel III will improve Risk Management because it includes measures of liquidity Risk. And 70% respondents agreed for improvement in financial strength of banks through Basel III Accord. It also improves, operational efficiency. 54% respondents disagreed that Basel III will improve corporate governance. 50% respondents agreed that Basel III will help to get high rating from credit rating agency and will robust the banking sector.

Table 4 These are the advantages in implementation of Basel III standards. Give your rating. 1 for Highest and 5 for Lowest.

	Improvement in Risk Management	Robustness of Banking sector	Financial Strength	Improvement in Operational Efficiency	Improve Corporate Governance
Highest	14	5	15	6	2
Higher	9	10	6	7	7
Moderate	2	7	4	6	5

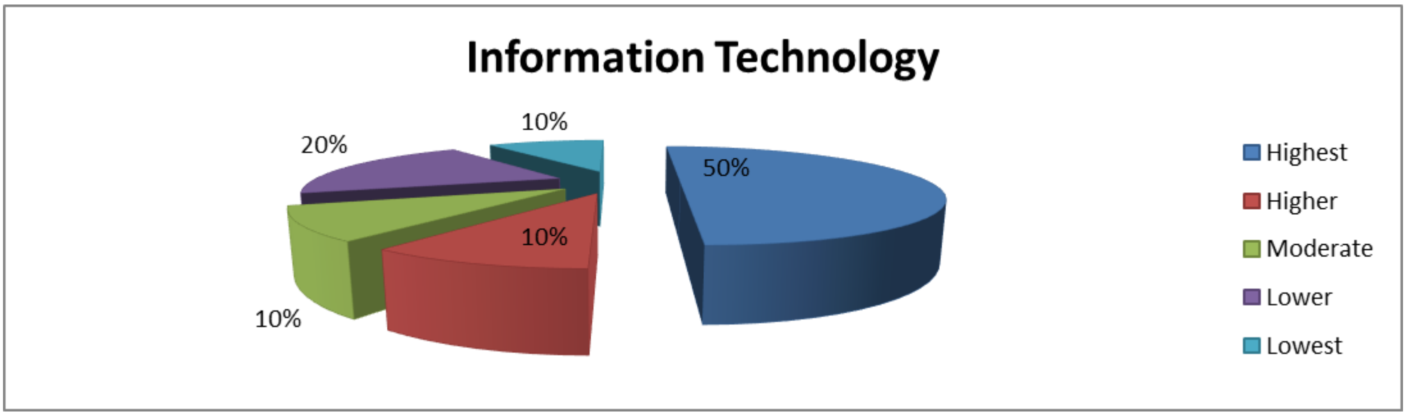

Figure 1 Hiring and Training Staff

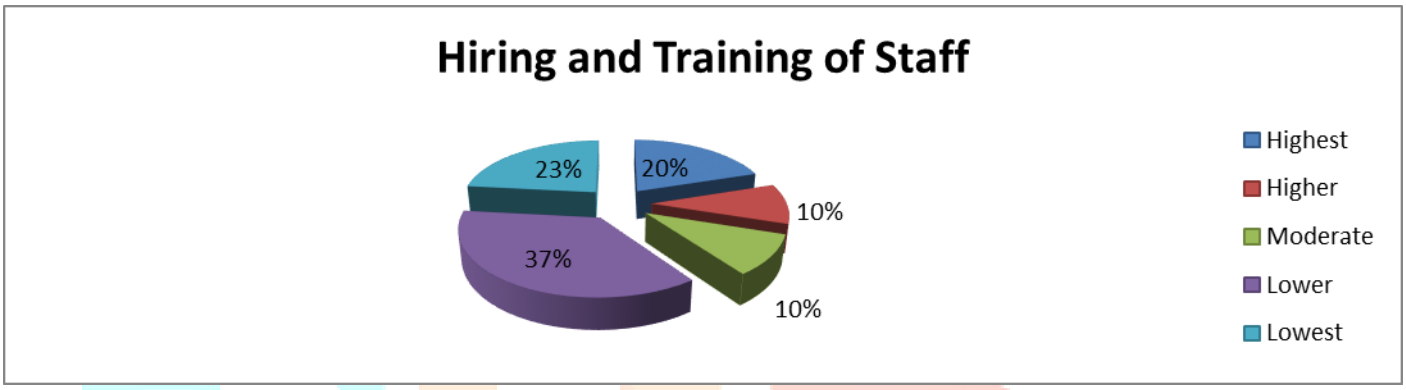

Figure 2 Information Technology

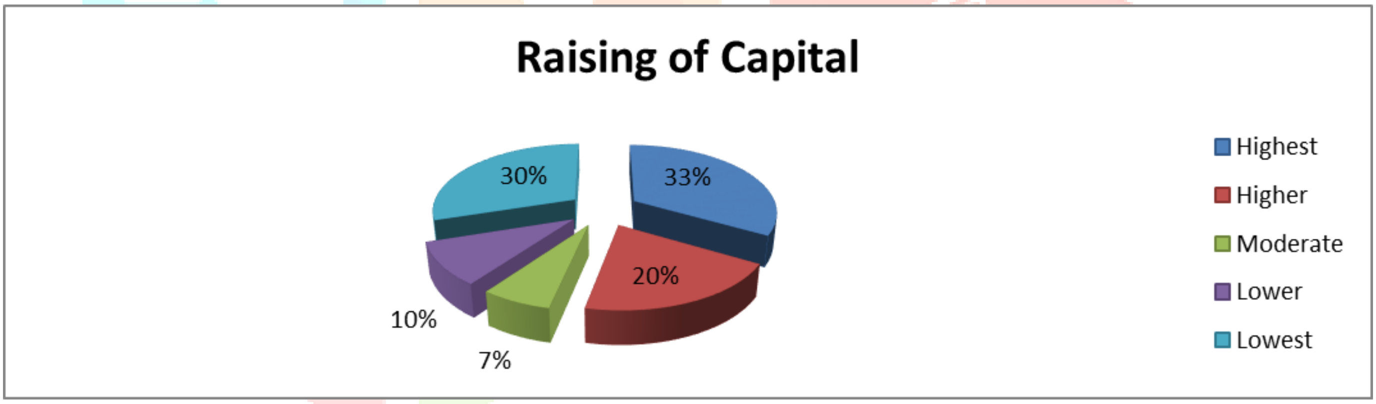

Figure 3 Raising of Capital

Here 60% respondents said that in implementation of Basel III there will be high cost of Information Technology. Banks have to outsource different types of models for the calculation of risk management. The second cost of raising capital is also involved. 53% respondents agreed with this. 60% respondents said that there will not be major requirement of hiring and training the staff.

Table 5 Weighted Average Mean

		Highest	Higher	Moderate	Lower	Lowest	∑wi	∑wi/ ∑w	Rank
Higher capital requirement	Frequency (i)	23	3	0	2	2	47	3.1333	1
	weight (w)	1	2	3	4	5			
Different Geography	Frequency (i)	1	3	2	7	17	126	8.4	5
	weight (w)	1	2	3	4	5			
Different Management culture	Frequency (i)	1	4	6	13	6	109	7.2667	4
	weight (w)	1	2	3	4	5			
Managing Data	Frequency (i)	4	12	8	3	3	79	5.2667	2
	weight (w)	1	2	3	4	5			
Auditing Data	Frequency (i)	1	8	14	5	2	89	5.9333	3
	weight (w)	1	2	3	4	5			

82% respondents are saying that the highest challenge of Basel III is higher capital requirement. To know the highest challenge we have calculated WAM. According to WAM the highest challenge is higher capital requirement, then Managing Data, then auditing data. From the WAM we know the Different Geography and Different Management culture will not affect more to implementation in Basel III.

Table 6 **One-Sample T-Test**

Advantages in Basel 3 standards	Sig. (2-tailed)	Result	Decision
Improvement in Risk Management	0.000	.000<0.05	Reject H0.
Robustness of banking sector	0.086	.086>0.05	Do not reject H0.
Financial Strength	0.000	.000<0.05	Reject H0.
Improvement in Operational Efficiency	0.595	.595>0.05	Do not reject H0.
Improve corporate governance	0.079	.079>0.05	Do not reject H0.
Benefit in credit rating in bank	0.222	.222>0.05	Do not reject H0.

From hypothesis testing it is known that implementation of Basel III will improve Risk Management and Financial Strength of Banks at highest level. And it will improve operational efficiency and corporate governance at lower level.

Table 7 One-Sample T-Test

Cost associated with implementation of Basel 3.	Sig. (2-tailed)	Result	Decision
information Technology	0.017	.017<0.05	Reject H0.
Hiring and training of staff	0.224	.224>0.05	Do not reject H0
Raising of Capital	0.596	.596>0.05	Do not reject H0

From hypothesis Testing it is known that implementation of Basel III will cost Information Technology at highest level. And it will cost hiring and training to the staff at lower level.

V. CONCLUSION

The Basel I, Basel II and Basel III are international agreements regulating general rules in the banking. Basel Committee has arrived at Basel to improve the risk management of depository financial institutions so that banks can exist even though market collapse. The legal age of bank directors and experts said that banks will not face more troubles in the implementation of Basel III because Indian Banks are already have more capital adequacy than required in Basel III. From research it is found that most of the Banks are working to adopt Basel III in the couple of 5 years. Public sector Banks will implement Basel III as per the guidelines of RBI.

Carrying out of Basel III will make the fiscal office of banks strengthen through classification of core capital and it also includes liquidity Risk. For the carrying out of Basel III Banks will have to incur costs like Information, Raising Capital, and coaching staff. This survey found that the greatest challenge for the banks is to increase the capital because the Basel III norm requires higher Tire I capital. Other than those overseeing and editing the data are also challenges for the bank. After carrying out of Basel III Banks have the opportunity to improve the Risk Management, to strengthen the financial condition, to Robust the banking sector, and get Benefit in credit evaluation. The Basel III requires some external models and IT. Thus, the cost of Information technology and lifting of capital will be higher. Researcher found that the banks will put through the Basel III norms by setting up more equity capital.

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