Disclosures Practices of BASEL Norms Adopted by Indian Banking Sector: A Comparative Study of Indian Public and Private Sector Banks

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ABSTRACT
In the present scenario, for the healthy economy, it is necessary that the banking system grows fast and should be stable. For the development of any country, the banking sector plays an important role. . One of the most important aspects of the financial sector is the banking sector. Today, in this competitive environment, adaptation of the BASEL norms by Indian banking sector will help in making globally competitive and also help them in managing their risk in a better way. By keeping this point, this research paper highlights the existence of the BASEL Accords for the Indian banking sector. This research paper helps in having a deeper understanding of the emergence of Basel banking norms (Basel I), and the evolution of the subsequent regulations (Basel II and Basel III). This research paper also describes the difference between the Basel I, Basel II and Basel III. This research paper also highlights the disclosure practices adopted by the Indian public and private sector banks. It is concluded that the private sector banks disclosing the BASEL III requirements better than the public sector banks.

Keyword: Basel Norms, Countercyclical Buffer, Net Stable Funding Ratio, Liquidity Coverage Ratio, Capital Conservation Buffer.

I INTRODUCTION

(a) About Basel Norms

Basel Norms comprises two words BASEL + NORMS. Basel is a name of the city in Switzerland where the headquarter of Bureau of International Settlement is established and norms mean rules and regulations. BASEL Norms are mainly developed to ensure that financial institutions have enough capital to meet the unexpected losses or expenses.

The Bank for International Settlement was established on 17 May 1930 which is world oldest international financial organization. It mainly has two offices located in Hong Kong and Mexico City. Covering from all over the world, there are 60 member countries in Bank for International Settlement which also covers 95% of the world's GDP.

BASEL Committee on Banking Supervision (BCBS) was established in 1974 by the Governor of the central banks of a group of 10 countries (initially) to develop banking supervisory regulations. Stefan Ingves is the chairman of the BCBS. The main aim of the BCBS is to accept the challenges as regard to risks and its help in management faced by the banking sector and to provide better supervisory and regulatory standards and guidelines for diminishing these risks so that they function properly.

Some Important terms used in the Basel norms are as follows:

(i) **Capital Adequacy Ratio (CAR):** CAR is the percentage of capital maintained by the banks to bear the losses exposed to various risks. Banks have to maintain certain percentage of capital to absorb the sudden shocks. It is calculated by

$$\boldsymbol{Capital\ Adequacy\ Ratio} = \frac{Tier\ 1\ Capital + Tier\ 2\ Capital}{Risk\ Weighted\ Assets} * 100$$

(ii) **Risk-Weighted Assets (RWA):** Risk-weighted assets are of two types of assets namely, banks assets and off-balance sheet assets. Banks provide weightage of risk to various assets according to the rules and regulations set up by the BCBS.

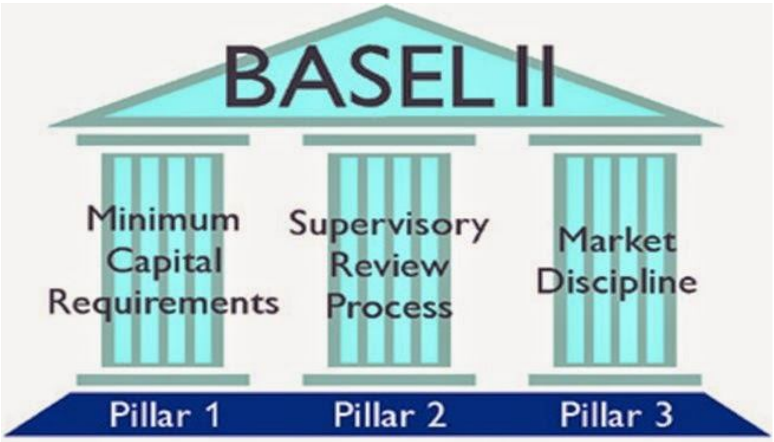
(iii) **Tier 1 Capital:** Shareholder's fund and Retained earnings are the part of Tier 1 capital. It is anticipated capital to measure the financial health of banks. It is used when banks can absorb losses without interrupting business operations.

(iv) **Tier 2 Capital:** It includes Reserves and surplus and subordinated debts. It is also known as supplementary capital because it is less reliable than Tier 1 capital.

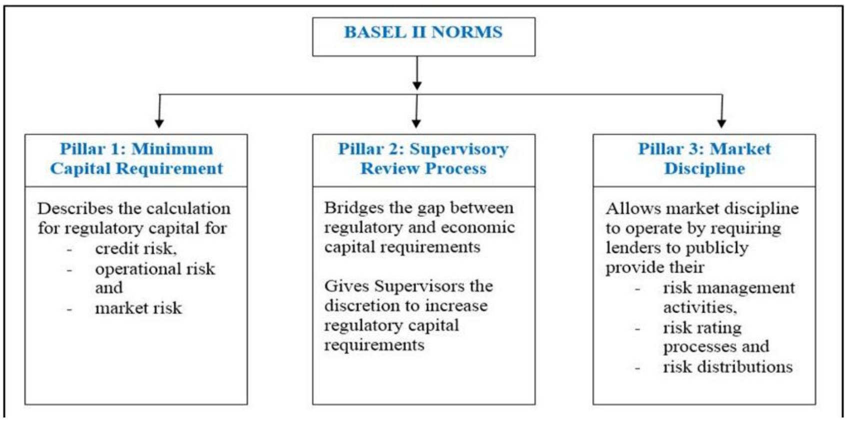
II BASEL NORMS I

BASEL I was introduced by BCBS in 1988.It includes only credit risk.The minimum capital requirement was 8% of RWA. India adopted BASELI in 1999.

III BASEL NORMS II



By overcoming the limitations of BASEL I, BASEL II was introduced in 2002. Banks should maintain a minimum capital requirement of 8% of RWA which is same as in BASEL I.In this, all the three types of risks were considered i.e. Market risks, Credit Risks and Operational Risks which is helpful in maintaining proper risk management techniques to minimizing the risks.The banks should disclose all the materiality facts and their risk.BASEL II fully implemented in India in 2009.In BASEL II, there are three pillars, i.e.

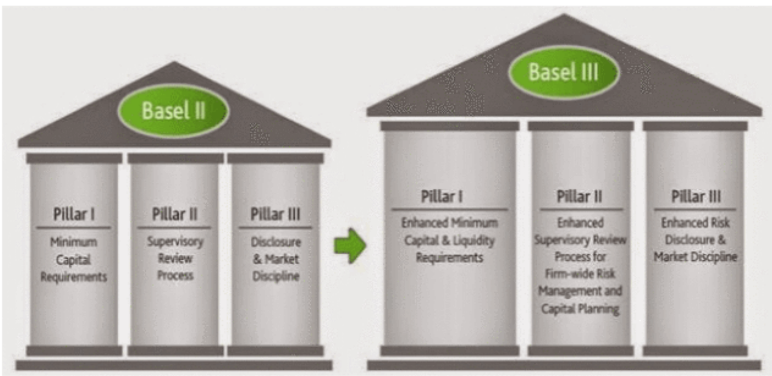


(a) Pillar 1: Minimum Capital Requirement which means banks should maintain a minimum capital i.e., 8% of risk-weighted assets.

(b) Pillar 2: Supervisory Review Process means the banks should monitor the various risk to minimize the risk or to maintain the minimum capital requirement.

(c) Pillar 3: Market Discipline which means for better management banks should disclose their risk exposure to the central bank i.e., RBI

IV BASEL NORM III



After the Global Economic Crisis in 2007-2008, it felt necessary that the strict norms should be maintained to avoid the financial stress. In December 2010, BASEL III was introduced. It is popularly known as III BASEL Accord. It major aim to strengthen the banking financial position to prevent such a financial crisis. “BASEL III is a comprehensive set of reforms measures developed by the BASEL Committee on Banking Supervision and risk management of the banking sector” (BCBS).

It helps in improving risk management and governance.In BASEL III, the minimum capital requirement is 10.5% of Risk Weighted Assets.In India, BASEL III will be fully implemented by 31 March, 2020. The main focus of the BASEL III is on the capital and liquidity. Capital ensures the long-term solvency position of the banks while Liquidity ensures the ability to pay off short-term economic and financial stress.

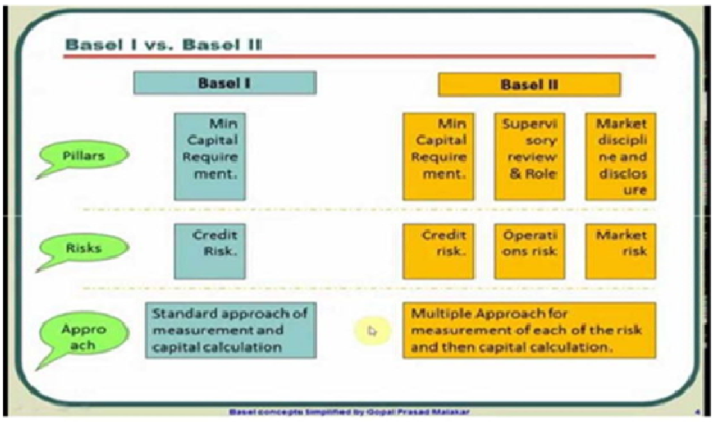
(a) Liquidity Rules: There are two rules regarding liquidity which are as follows:

- **(i) Liquidity Coverage Ratio (LCR):** It is used to safeguard the banks against continued financial stress for 30 days.
- **(ii) Net Stable Funding Ratio (NSFR):** By maintaining a required amount of stable funding at a minimum of 100%, financial liquidity risk profile of the long-term stability can be met.

(b) Capital Rules: There are two rules regarding capital which are as follows:

- **(i) Capital Conservation Buffer:** At the time of low financial stress, a buffer of 2.5% (entirely out of Tier I capital) above minimum capital requirement can be used. At the times of reduced buffers,it discourages distribution of earnings as a signal of financial strength.
- **(ii) Countercyclical Buffer:** When there is a threat of financial distress due to the excess credit growth, national authorities can be enacted this buffer.

V DIFFERENCE BETWEEN BASEL I, II AND III



Basis of Difference	BASEL I	BASEL II	BASEL III
Pillars	No pillar	3 Pillars	3 Pillars
Type of Risk	BASEL I has Credit Risk	BASEL II have Credit Risk, Market Risk and Operational Risk.	BASEL III have Credit Risk, Market Risk and Operational Risk.
Minimum Capital Requirement	Minimum capital requirement is 8% of RWA	Minimum capital requirement is 8% of RWA	Minimum capital requirement is 10.5% of RWA

BASEL III
disclosures of the various selected Indian Public and Private Banks:

Name of Bank	Sector	Minimum Capital Requirement by BASEL III	Minimum Capital maintained by banks		Disclosure under the head
			2018	2017	
ICICI	Private	10.5%	**18.42%**	**17.39%**	Management's Discussion and Analysis
Bank of Baroda	Public	10.5%	**12.13%**	**12.24%**	Schedule 18, Notes to Accounts under Financial Statement
Axis	Private	10.5%	**16.57%**	**14.95%**	Liabilities and Shareholder's Fund under the Management's Discussion and Analysis
Punjab National Bank	Public	10.5%	**9.22%**	**11.98%**	Director's Report Progress at a Glance
State Bank of India	Public	10.5%	**12.74%**	**13.56%**	Financial highlights: 10 years at a Glance
Yes Bank	Private	10.5%	**18.4%**	**17.0%**	Schedules
Canara Bank	Public	10.5%	**13.22%**	**12.86%**	Capital and Reserve under Financial Performance
Kodak Mahindra Bank	Private	10.5%	**18.22%**	**16.77%**	Schedule 18, Notes to Accounts under Financial Statement

VI INFERENCE

The present research paper describes the understanding of BASEL Accords and way of disclosing practices adopted by the various banks. This paper primarily focuses on the disclosure practices adopted by the Indian Public and Private sector banks and the comparison between the capital adequacy ratio of 2018 and 2017. It is analyzed that the private sector banks are disclosing the BASEL norms requirement much better than the public sector banks. Also, in private sector banks, there is a rise in CAR as compared to the previous year while in public sector banks; there is a fall in the CAR as compared to the previous year. Hence, it can be concluded that the implementation of the BASEL Accords by the Indian banking sector has resulted in better performance of the banks. Also, the public sector should fully disclose the requirement of BASEL III in proper and better manner.

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