Chapter 5

Conclusion and Limitations

The chapter ahead deals with the conclusion of the study that had been carried out to understand the various aspects of the topic and to see whether the set objectives were fulfilled or not. The research was started on the topic given to develop and garner the knowledge on the concept of Basel 3 norms and to understand certain aspects which were set as objectives by the researcher to see whether the norm is in line with the requirements of the Indian banking system. For the same purpose the researcher has divided the same into various parts which will be discussed ahead.

5.1 Introduction

The study began in the area with the study of various available literatures to review the impact of the Basel 3 accord on the banking system of India. For the purpose of same an extensive research was carried out in the literature available in the form of papers, and circulars. It was found during this time that how the Basel 3 accord is impacting the Indian banking industry

While drafting chapters various circulars and papers covering the previous Basel Accords were analysed and presented. During the time of the study it was found that the Basel accords were never drafted from the perspective of the developing banking system. They were always in line with the requirements of the developed economy. We have already seen in the chapters ahead that many of the norms set in the Basel accord were never in such form that can be adopted by the developing Economy. Many a times this had been said by the regulators that the developing economies need not implement the accord as in the same form. But as we moved ahead we analysed that the implementation of the same was the best possible way fort the developing economies to become global.

In the first phase of the study the researcher tried to understand what went wrong with the previous accord that it needed a revamp to be reintroduced. In the first Basel accord the system was too stringent in relation to credit risk rating that it affected the economy of the developing countries as there were no rooms where the banks of these economies can extant credit to the developing industry in its country as it followed a strict norm of rating and below which it was not possible to fund. The researcher here wishes to conclude that there were
various reasons for the failure of the first accord as on one hand the accord was specifically
designed for the developed economies on the other it was so over publicised that it appeared
that there is no other way than implementing the same for a better banking system.

The second accord was a cure for the first one it provided flexibility to the banking system
thus providing an impetus to the developing economy. The second accord was doing well
until the late 2007 when the American subcontinent was hit by the subprime crises. This lead
the way to the analysis of Basel 2 accord to understand what went wrong and where. It was
found in this analysis that the accord is over simplified and the developed economy
overplayed on the flexibility given by the accord and thus leads to the failure of its banking
system. While the accord was most suitable for the developing economy like India. With the
advent of the new Basel norm i.e. Basel 3 the question started coming up again and again that
whether we require the new accord or not and how it will impact the Impact he Indian
banking industry.

Thus the study revolves around mainly one research question that is:

“Implications of Basel 3 on Indian Banking Sector and the Attitude of Stakeholders”
5.2 Validation of Set objectives

A brief of the objective and the final result are discussed in the table below. The detailed description is followed there on.

<table>
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<tr>
<th>Sr. No</th>
<th>Objective</th>
<th>Final Outcome</th>
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<tbody>
<tr>
<td>i.</td>
<td>To compare the global view point of Basel 3 norms for introduction in the banking system.</td>
<td>It can be concluded that the world is accepting the norms gradually but there are mixed reviews as still it is seen as an enhanced version of Basel 2 accord.</td>
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<td>ii.</td>
<td>To evaluate if Basel 3 will be beneficial for Indian Financial System, and explore if it should be implemented with some modifications as per our economy.</td>
<td>The accord has both negative and positive effect. But India being a developing economy it will be a positive move to adopt the accord and will strengthen the financial system, till the case of modification is concerned RBI has already done modification by increasing the rate of Tier 1 and 2 then that prescribed by the accord.</td>
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<td>iii.</td>
<td>To evaluate whether our economy is ready for the effects of the Basel 3 and is ready to absorb the cost that needs to be incurred in implementing the same.</td>
<td>The Indian economy is ready for the modification that are taking place due to the accord as the Indian banks are already in a better condition on the reserves and ratios than the minimum requirement.</td>
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<td>iv.</td>
<td>To evaluate how the key banking parameters for prominent Public Sector Banks and Private sector Banks would have been different had Basel 3 norms were implemented in past.</td>
<td>As can be seen in the 2nd part of analysis the effect of the accord is positive on the NIM of the bank.</td>
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v. To understand the attitude of various relevant stakeholders towards introduction of Basel 3 norms by analysing: Bank employees’ viewpoint about awareness, expected impact, perceived changes needed in overall system and whether it differs from sector to sector.

The bank employees’ attitude as studied in the 3rd and 4th part of the analysis shows a welcoming trend towards the accord. The banker feel that it is a required step to make the Indian economy strong and to make the Indian banking global.

Table 5.2.1: Validation of Objectives

The researcher has set various objective to understand the same going ahead the researcher will check whether the objectives were met or not and what is the conclusion that can be drawn out from the same.

The first three objective set for the study were as follows:

i. To compare the global viewpoint of BASEL 3 norms for introduction in the banking system.

ii. To evaluate if BASEL 3 would be beneficial for Indian Financial System, and explore if it should be implemented with some modifications as per our economy.

iii. To evaluate whether our economy is ready for the effects of the BASEL 3 and is ready to absorb the cost that needs to be incurred in implementing the same.

The researcher has used the method of literature review to achieve these objectives. What can be the better way to understand the implementation of the accord and its effect on the world. While going through the available literature on the topic the researcher was able to find out that globally all the countries have varied views about the new accord. But no literature was found where any of the countries have negated the implementation of the norm or have said that they would better keep away from the norm. So we can conclude that the globally it has been a welcome move in the banking industry. The literature shows that globally banks are making adjustment in their banking system to adapt to the new norm as they feel that it is a better way to manage the banking of the country.

Further various literatures were referred to understand the effect of the Basel 3 norms on the Indian Financial system and whether we need to implement the same with any modification. To this the researcher concludes that adopting the Basel 3 norms is the only way for the
Indian banking industry to become global and to have its international presence as we are also moving to foreign countries and have also opened our doors for the bank of the foreign countries to set their branches in India. In such a situation implementation of the norm is in favour of the Indian banking system. The literature has a mixed review about the preparedness of the Indian Financial system for the implementation of the same. Where all the literature presents the view that the Indian banking is adopting the new accord in the phased manner in a more stringent ways some literature are drawing focus towards the requirement of the additional capital by the PSU banks to meet the requirements of the accord. While some of the literature states that the Indian banks are in a better position than the banks in the world to meet the requirements of the accord to establish the same with the researcher has done some calculation which also helps in establishing the fourth objective of the study. Thus it can be concluded that Indian banking may face certain issues but implementation of the accord in not a problem for the Indian Banking system and Indian Financial System. 

For checking the validity of the third objective it can be said that the Indian economy is not only ready for the implementation of the new accord in fact the phased implementation has already started and the economy is in much better condition to absorb the cost of implementation. This can be very well gauged from the fact that the RBI has directed Indian banks to make a 1% additional provision in the pillar one as compared to the accord where the total provisioning according to the accord is 10.25% the Indian banks need to do the provisioning of 11.25%. Thus we can conclude that the Indian economy is ready and is in a comfortable position for the adoption of the new accord and is ready to bear the additional cost that it will imply. With this we move to the next objective set in the study to check whether it has been achieved or not. The increment in the capital of Tier 1 can be done with the combination of both the equity and debt. The sovereign investment of the banks can help the banks in balancing the situation thus making a lesser provision for the CAR.

iv. To evaluate how the key banking parameters for prominent Public Sector Banks and Private sector Banks would have been different had BASEL 3 norms were implemented in past.

To achieve this objective the researcher had taken certain key parameters of Basel 3 norms and tried to study its effect on the NIM of the bank which is one of the major factors which affects the working of the banks. Here the factor that is considered from the accord is the phased implementation of Tier 1 capital, and CCB along with additional tier 1 capital. As all three work on the parameter of common equity. A relationship was established on between the change in the equity capital and change in the lending spread of the bank and was studied.
with 5 banks in view that is Axis, ICICI, SBI, BOB and Federal. By establishing the relationship it can be concluded that a change in 1% point of the equity does have a effect of 0.15% on the lending spread of the banks which was well evident from the data derived from the banks where it was proved that whenever the equity has gone high by 1% to meet its cost the lending spread was increase by 0.15%. As can be seen from the derived relation by the figures of the five banks. Also it is to be note that a change in equity had equivalent impact and change in the debt of the banks. Thus reducing the interest expenditure of the bank by 0.03%. Along with it as the lending spread has increased the interest income will have an equivalent effect of 0.08% rise. Now NIM being a factor of interest income and interest expenditure to average assets the same will also get affected. Thus we can say that there is an indirect correlation between the change in the equity and movement in the NIM. Also while doing these calculations it was found that the capital position of the Indian banks is far stronger that what is required by the Basel accord thus we can say that the implementation of the same is very comfortable for the Indian banking Industry.

v. The last objective that was studied to understand the impact of new is to understand the attitude of various relevant stake holders towards introduction of BASEL 3 norms by analysing: Bank employees’ viewpoint about awareness, expected impact, perceived changes needed in overall system and whether it differs from sector to sector.

To achieve this objective the researcher conducted the survey of the various bankers from both public and private sector and also tried to understand that whether their viewpoints differ or are significantly same. The researcher has asked various questions to the bankers to understand their understanding about the various aspects of the accord and do they agree with each other opinion. The results of the same were tested by using Chi square test. Thus we can conclude further that nearly all the bankers agree to the implementation of the accord and they feel that it will be a welcome step for the Indian banking industry. Also it can be concluded that the viewpoints of the private bankers and public sector bankers are normally same on all the baring 1.

This can also be concluded from the study that the bankers are well versed with the accord and understand its long term implications on the Indian Banking Industry.
5.3 Conclusion in points:

i. The Indian banks are in much better position for the implementation of the accord as compared to the world banks.

ii. The concepts that are introduced under the LCR may be new for the banking around the world but are not new for the Indian banking as we already maintain SLR in this pattern.

iii. The Indian Banking staff is well versed with the new accord and its impact on the Indian banking system still it prefers the implementation of the same.

iv. With every change in the equity there will be an equivalent change in the NIM of the banks.

v. If the ratios were implemented in the past than also the Indian banks were in the condition to meet the required ratio. Even though it may be a mediocre bank.

vi. It can also be concluded by studying the balance sheet of the banks that the Indian banks are high on capital and are too large to meet any of the future challenges.

vii. It can be concluded from the study that the better was for improving the tier capital is to increase the equity in the market as the banks debt is a costly source to raise the Tier funds.

viii. It was also concluded from the study that the norm is too complex for a lay man to understand and thus can be misinterpreted at times.

ix. After testing various aspects of the Accord it can also be concluded that Basel 3 is not a complete new accord instead it can be said an amended version of the previous accord. With certain modification and changes.

x. It can be concluded from the study that in no case reduction of operational cost will help in covering the cost of implementation of the accord while the best way remains the impact on the loan spread.

xi. The study also concludes that the conservative norms of RBI are also welcomed by the Indian banking industry as the banks are well prepared for the same.

xii. It can be concluded from the views of bankers that the problem with the public sector banks is not the limited flow of capital or requirement of capital infusion for the smooth transition rather the bigger problem is their unmanaged NPA.
5.4 Limitations of the Study

One cannot say that the work is 100% perfect and the limitations of this study are as follows

i. The researcher has used assumptions in the calculation of the relation between the change in Equity and NIM. There are chances that if the assumption changes the result will also change.

ii. Being too complicated to calculate the accord norms can be easily misrepresented,

iii. The researcher used the judgemental sampling in case of employees in the bank as with random sampling the chances of getting the reply form the bankers was very low.

iv. The researcher is not able to mention the department and bank of the respondent in the case of last research question as the respondents were finicky about the information and their personal views going out.