Executive Summary

The economies of the World are at a paradigm shift. The views of the economy are now global rather than limited to one’s nation. Banks are the back bone of any economy to keep them strong and efficient is the biggest challenge that the world is facing. Being regulated according to one’s national economy doesn’t make them strong. The Banks are working today on a Global level and thus a problem in one nation is sure to affect the banks of another nation also as is evident from the past where the crisis that started from the bank of one country affected the banking at the world level. The biggest evidence on the same is 1974 Hestatt crises and the 2007 Sub-prime Crisis.

This made the authorities in the banks of the world to think for a solution that can be suitable to all and can help the banks to abate these unforeseen crisis situations. The first step that the G-10 nations took in this direction was known as the Basel accord for banking which we today know as Basel-1. The accords were formed and tried and as time passed were changed to meet the banking pace. Thus came into force Basel 2 followed by Basel 3.

The latest in the series of accords is Basel 3, the implementers are trying to understand the effect it will have on the Indian banking system. The researcher while trying to understand this found very few studies done on the issue in the Indian context. Also the studies that are done do not seem to cover the original picture. The studies being somewhat based on the foreign assumptions were found just replicating the same in the Indian context. A very few studies used the original banking figures to understand the exact effect the banking will have with the implementation of the accord. Along with it almost negligible research was found on the implementer’s perspective. The implementers are the core people who understand and implement the accord and try to convince others about the positivity and negativity of the accord thus their views plays a crucial role in the implementation, but this area was left out from almost all the studies. Thus the researcher started the research with the objective to understand i) To compare the global view point 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. 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. v) 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 these objectives the research methodology includes both exploratory and analytical views. The researcher has used both Primary and Secondary data for this purpose. The researcher established the hypotheses based on the research objective. While the secondary data was the balance sheet (2008-09 to 2014-15) of the select banks in study, the primary data consisted of the Questionnaire that was used to understand the perspective of the bankers. For the first part the researcher has mainly focused on the change in value of Tier 1 Capital to its effect on the Net Interest Margin of the banks. The reason behind studying this situation was to analyse that whether the increment of the equity capital will have a negative impact on the NIM. Secondly also to see what the condition of the banking in India is? Are we really suffering from deficiency of capital or there is something else that is creating such a situation.

In the second part the researcher tried to analyse the attitude of the implementer. As it is rightly said that the horse will ride in that direction only where the jockey takes it. So the researcher wanted to understand that whether the implementers are also finicky about the rules of the accord and how much they feel that the accord is an unwelcome step for Indian banking. To establish the same the researcher contacted various Public and Private sector bank employees to know their view and also to understand if there is any difference between the views of the employees of both the sector. The researcher also tried to understand whether our economy is ready to accept the changes that the Basel 3 accord will make. For this purpose the study was conducted which is divided into 6 parts as will be briefed below:
**Chapter 1:** Introduction of the accords discusses about the banking in the world and India. It discusses how the accord started and what is the current form of the accords. The chapter itself deals in describing the scope of working of the new accord. It shows the various parameters that may change with the implementation of the accord along with it the chapter also studies the previous accord and tries to understand.

**Chapter 2:** Review of literature provides the researcher an insight about the thought process of the other researcher. It helps the researcher in viewing the issue from various angles. It provides an unbiased view of the problem to the researcher. The chapter here again is divided into various sub parts such as Indian banking, Basel 1, Basel 2, Basel 3 and in that again at national and international level to understand what are the issues that are present world over and what are the issues that are just present in India and thus help to find a solution to them,

**Chapter 3:** This chapter Deals with the research methodology adopted by the researcher and thus provides the reason and logic behind the methodology adopted to solve the research problem and achieve the research objective.

**Chapter 4:** The chapter being the main part of the study deals with the problem on hand and tries to understand the issue which the researcher has set as objectives of the study. Here for the purpose of the same the researcher had divided the chapter in four parts. As Einstein has rightly said that "Not everything that counts can be counted, and not everything that can be counted counts." The research ahead thus is phased into four parts keeping in view the objective of the researcher. These four parts are as enumerated under:

- Theoretically what changed (Theoretical Comparison of 3 Basel accord)
- Tier 1 impact on the NIM of the bank
- How much implementers agree (Data analysis of various private and public sector bank employees on various concepts and their opinion in data form)
- Implementers’ views (Views of the implementers for the Basel 3 accord in their words)

In the first part the researcher has tried to understand the exact change that took place and tried to analyse if actually there were any change. In the second part the researcher tried to understand the effect of change in Tier 1 on the NIM of bank to understand whether it is good or bad for the bank to increase Tier 1 capital. The third and fourth part deals with the attitude of the
implementer and their thought process to understand whether they feel it being a welcome move or not.

**Chapter 5:** The chapter deals with the validation of the objective as can be seen from the below mentioned table and gives a view about set objective and the Final outcome.

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<tr>
<th>Sr. No</th>
<th>Objective</th>
<th>Final Outcome</th>
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<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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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. As can be seen in the 2nd part of analysis the effect of the accord is positive on the NIM of the bank.

v. 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. 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.

**Chapter 6:** The last chapter gives the details about the recommendation that the researcher feels that is a way to deal with the situation coming ahead.