ABSTRACT

The present work was a comparative study of the challenges in implementation of a new set of capital requirements as recommended by the Basel Committee on Banking Supervision with reference to Indian Banking System and UAE and its impact thereof.

After a brief overview of the key features of the new Basel Capital Accord (Basel II), a systematic legal and economic analysis was carried out in order to identify and address the main issues arising as a consequence of implementation of the new Basel II Accord in the Banking System.

The main objective of this work was to identify and note the weaknesses among Indian and UAE banks with regard to each of the three pillars as recommended in Basel II Accord. The Basel II Accord has got not only a statutory relevance rather it is also of great interest to the academic community and the business world. The present work tries to explore the emergence of relative risks stemming out from the existing practices of businesses and production of useful deductive comments-recommendations for improvement, which could positively change not only the regulatory environment of UAE and India but also the business practices.

The basic principle is the conviction that the adoption of new practices of Basel II in India and UAE should not only take place through prescriptive regulations, but also should be identified as need by banks themselves, which should see the benefits from the adoption and application of best practices.

In India, there is dominance of Government ownership coupled with significant private shareholding in the public sector banks, which in turn continue to have a dominant share in the total banking system. Minimum capital adequacy requirement under the Basel standards is 8%; RBI has stipulated and achieved a minimum capital of 9%. Basel II mandates Capital to
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Risk Weighted Assets Ratio (CRAR) of 8% and Tier I capital of 6%. The RBI has stated that Indian banks must have a CRAR of minimum 9%, effective March 31, 2009. All private sector banks are already in compliance with the Basel II guidelines as regards their CRAR as well as Tier I capital. Further, the Government of India has stated that public sector banks must have a capital cushion with a CRAR of at least 12%, higher than the threshold of 9% prescribed by the RBI.

On the other hand, banks in India are still in the process of implementing capital changes or market risk prescribed in the Basel Document. A feature, somewhat unique to the Indian financial system is the diversity of its composition. These public sector banks are listed on the stock exchange and their performance is reflected in their P/E ratios. The private sector banks, especially the new ones, are world class. There are also cooperative banks, which are large in number and pose a challenge because of the multiplicity of regulatory and supervisory authorities. There are also Regional Rural Banks with links to their parent commercial banks.

Foreign bank branches operate profitably in India and by and large the regulatory standards for all these banks are uniform. The process of providing financial services is changing rapidly from traditional banking to a one stop shop of varied financial services and the old institutional demarcations are getting increasingly blurred.

The UAE Banking industry is considered to be a reflection of the Middle East banking as UAE had the fastest developments in the financial services sector. The UAE's banking and financial sectors achieved record growth rates in 2005, fuelled by rising oil revenues as well as the double investment value of the securities market on the other.

Implementing the new Basel II Accord in oil based countries is expected to have various consequences on a large scale, including some adverse impacts.
on such as increased costs of lending, enhancement of competitive advantages of large banks, increased pro-cyclicality and rewarding of short term lending. Awareness of these potential consequences could help the banks to better prepare themselves and try to diminish the negative impacts.

While banks will not be able to completely avoid some of the above mentioned problems, they are usually believed to have a choice on deciding whether and how the new standards should be implemented.

Even though India and UAE are not obliged to comply with provisions of the Basel II Accord, the incentives to do so are stronger than are generally recognised. Due to pressure from the international financial community, prestige, to protect their banking industry, especially since the World Bank and the International Monetary Fund are using Basel Committee standards as benchmark, the UAE Central Bank opted for the implementation of Basel II accord norms which were carried out in phases starting end of 2007.

The lack of resources, insufficient number of skilled policymakers, gathering of data with sufficient detail on losses and creating a data collection process are some of the biggest challenges.

Thus, we briefly describe the basic characteristics of the issues that we tried to develop within the frames of this doctoral thesis, this encompassed the relative research for each one of the three pillars. It also comprised the basic units of the thesis and the relative deductive comments- recommendations for improvement, apart from the development of the theoretical setting with study and analysis of international legislation and practices, through the relative literature (UAE literature is relatively shorter).

International literature, apart from UAE, offers a wide range of topics with respect to new capital requirements under Basel II, while the relative legislations have a lot of discrepancies from country to country. Important literature sources were the researches of
Abstract

- Basel Committee on Banking Supervision (2003a), “Quantitative Impact Study 3 –Overview Of Global Results”, 5 May
- Basel Committee on Banking Supervision (2003b), “Supplementary Information on QIS 3”, 27 May
- Basel Committee on Banking Supervision (2004a), “Modifications to the capital treatment for expected and unexpected credit losses in the New Basel Accord”, January

In the UAE, UNION LAW No (10) OF 1980, FEDERAL LAW NO 6 OF 1985, 1744/2003, IMF PUBLICATIONS ON UAE, as well as several
relevant studies conducted by banks and other financial institutions were an important source.

In India, Reserve bank guidelines, IMF Publication as well as banking laws were important source apart from various governmental and RBI communications.

International literature offers a wide range of topics about new capital requirement under Basel II, however, unfortunately in UAE there are very limited resources, as the literature sources are constrained.

The scientific research that follows our doctoral thesis is focused on the contemporary business environment and comparative analysis of India with UAE Banking System that are required during the last years to comply with strict codes - rules of corporate governance and behavioral legislations usually adopting the minimum requirements, without following the internationally accepted good practices.

**JUSTIFICATION OF STUDY**

As the Basel-II, Pillar-II implementation is scheduled to be over in 2009, while the Pillar-III is concerned with financial communication and market discipline only, it is the right time to highlight the status of implementation and acceptability and preparedness for the Pillar-III.

**REVIEW OF LITERATURE**

Already vast literature on Basel II, a large part of which is actually constituted by unpublished reports and newspaper or magazine articles, and for that reason, there was no preoccupation in checking and acknowledging precedence in any of the points raised in the paper.

Basel II is the latest buzzword in the Risk management arena, both for banks, as well as for Information Technology (IT) companies, which specialize in this space. Due to this, already vast literature on Basel II is available, a large
Abstract

part of which is actually constituted by unpublished reports and newspaper or magazine articles, and for that reason, there was no preoccupation in checking and acknowledging precedence in any of the points raised in the paper. The Bank of International Settlements (BIS) has defined, in detail, the banking side of Basel II. This includes detailed frameworks, describing Basel II requirements, with regular updates to these frameworks. In addition, the regulatory authorities of various countries regularly provide detailed guidelines to banks on the intricacies of Basel II, from a risk management side. The above is further supplemented by the expertise available in banks, through their internal risk management groups.

However, there is one area, where banks have been forced to work on a hit and trial method, relying solely on on the job training. It is the area of Basel II enterprise architecture, i.e. the changes banks need to make in their enterprise architecture to ensure their IT software infrastructure can successfully support the business-related risk management aspects of Basel II. To clearly comprehend the importance of a robust, extensible and, most of all, practically workable Basel II architecture, one needs to understand the costs related to any Basel II implementation.

Therefore in the present study the literature review is provided on the three pillars of Basel II which forms the basis to conduct the Research on the Challenges faced in Implementation of Basel II Accord, steps taken for implementation thereupon and its Implication on Indian and UAE Banking Sector

AIMS & OBJECTIVES

The present study was carried out with an aim to study the Implementation of Basel II Accord and its Implication in Indian and U.A.E. Banking Sector
Abstract

For the above aim the following objectives were framed for the present study

• To study the clarity of the main spirit of the New Basel Capital Accord through the three pillars specified in the Accord and their implementation in the Banks across India and UAE

• To study the two economies i.e. India and UAE in reference to regulatory and legal framework and thereby understanding the overall regulatory guidance and constraints,

• To find out areas of concern /obstacle in respect to implementing the Basel II in the Banks with special reference commercial banks in India and UAE

• To study the approach of Indian, Foreign and UAE banks towards various risks

• To find out problems faced by the banks in different environments

SCOPE OF STUDY

The present study has a very wide scope from the point of view of academicians, bankers and planners

1 Academicians The academicians will get a chance to understand various relationships between banks, environmental impact on transition, impact of ownership on transition, relationship between banks and solution providers, relationship between banks and regulating authorities, relationship between banks and government, implication on various stakeholders, the impending fears amongst the banking personnel, and their perceptions regarding various issues involved in the transition

2 Bankers The gap analysis will give the bankers an opportunity to understand their strengths and weaknesses in detail and thereby provide
them an opportunity to diagnose the problems and take correct measures, thereby focusing their energies to the correct issues.

3 **Policy Makers**: The study of differences between environments and differences among different ownerships would give the policy makers an opportunity to mould their policies and regulations in such a way so as to facilitate the smooth transition.

**RESEARCH METHODOLOGY**

The present study was undertaken for a comparative study of Implementation of Basel II Accord and its Implication in Indian and U.A.E Banking Sector. After a thorough study of the previous works on the topic, the methodology to undertake the present study was on an exploratory design using both primary and secondary data sources.

**HYPOTHESIS**

Based on the foregoing objective the following null hypotheses were evolved for the present study:

H1. The readiness for implementation of Basel II is affected by environment.

H1.A. Understanding of Basel II is related with Environment

H1.B. Perceptions related to Relevance of Basel II, its impact and benefits are related with environment

H1.C. Implementation status and acceptability is dependent on the environment.

H1.D. Pricing and Implementation Strategy is dependent on the environment

H2. Ability to bear the cost of implementation of Basel-II is related with environment.
H3 Relevance and adequacy of risk management processes is different in different environments

H4 The perception regarding the effect of disclosure of information is different in two environments

H4 A The perception regarding the effect of disclosure of information on competence is different in two environments

H4 B The perception regarding the effect of disclosure of information on reputation is different in two environments

H5 The amount of resistance to Basel II by the personnel of banks is different in different environments

H6 The perception that successful implementation of Basel II will avert financial crises is different in different environments

H7 The readiness for implementation of Basel II is affected by type of ownership

H7 A Understanding of Basel II is related with ownership type

H7 B Perceptions related to Relevance of Basel II, its impact and benefits are related with type of ownership

H7 C Implementation status and acceptability is dependent on type of ownership

H7 D Pricing and implementation strategies are dependent on ownership type

H8 Ability to bear the cost of implementation of Basel-II is related to type of ownership

H9 Relevance and adequacy of risk management processes is different for different types of ownerships
The perception regarding the effect of disclosure of information is different for different types of ownerships.

H10 A. The perception regarding the effect of disclosure of information on competence is different for different types of ownerships.

H10 B. The perception regarding the effect of disclosure of information on reputation is different for different types of ownerships.

H11. The amount of resistance to Basel II by the personnel of banks is different for different types of ownerships.

H12. The perception that successful implementation of Basel II will avert financial crises is different for different types of ownerships.

RESEARCH INSTRUMENT

The questionnaire was divided into three parts, first part consisted of questions related to the information related to location of the bank and type of ownership, the second part was related with questions related to industry, the third part was a scale developed to measure the preparedness, attitude and abilities of the participating banks for Basel II. After surveying the related literature, the questions were framed following Delphi technique. For this purpose a team of six persons (from academic, banking and financial sectors) was constituted to propose questions related to various issues related to preparedness of banks towards Basel II accord and their attitude towards various issues related to its perceived benefits and impact on the functioning of bank. An attempt was made to questionnaire exhaustive and illustrative so as to provide maximum reliability.

RESULTS

Reliability and validity of the self-developed 42-item tool was used for collection of primary data. The tool was tested for reliability both in terms of content and construct. The tool was found to be reliable contentwise. For
Construct validity Principal Component Analysis was performed, and after Principal Component Analysis, the tool was reduced to a 34-item scale for measuring the status of preparedness and perception regarding the impact of Basel II among the banks in UAE and India.

The data collected was subjected to analysis. The analysed results depicted the acceptance/rejection of hypotheses as follows:

<table>
<thead>
<tr>
<th>Hypothesis No.</th>
<th>Statement of Null hypothesis</th>
<th>Tool to test the hypothesis</th>
<th>Significance</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>The readiness of implementation of Basel II is affected by environment</td>
<td>Chi-square</td>
<td>$\chi^2=4.565$, $p=0.020$</td>
<td>Accepted</td>
</tr>
<tr>
<td>H1 A</td>
<td>Understanding of Basel II is related with Environment</td>
<td>Chi-square</td>
<td>$\chi^2=0.268$, $p=0.608$</td>
<td>Rejected</td>
</tr>
<tr>
<td>H1 B</td>
<td>Perceptions related to Relevance of Basel II, its impact and benefits are related with Environment</td>
<td>No test applicable as the other state was absent</td>
<td>-</td>
<td>Rejected</td>
</tr>
<tr>
<td>H1 C</td>
<td>Implementation status and acceptability is dependent on the environment</td>
<td>Chi-square</td>
<td>$\chi^2=5.625$, $p=0.018$</td>
<td>Accepted</td>
</tr>
<tr>
<td>H1 D</td>
<td>Pricing and Implementation strategy is dependent on the environment</td>
<td>Chi-square</td>
<td>$\chi^2=6.667$, $p=0.010$</td>
<td>Accepted</td>
</tr>
<tr>
<td>H2</td>
<td>Ability to bear the cost of implementation of Basel II is related with environment</td>
<td>Independent sample's &quot;t&quot; test</td>
<td>$t=1.640$, $p=0.110$</td>
<td>Rejected</td>
</tr>
<tr>
<td>H3</td>
<td>Relevance and adequacy of risk management processes is different in different environments</td>
<td>Independent sample's &quot;t&quot; test</td>
<td>$t=3.419$, $p=0.002$  $t=5.811$, $p&lt;0.001$</td>
<td>Accepted</td>
</tr>
<tr>
<td>H4</td>
<td>The perception regarding the effect of disclosure of information is different in two environments</td>
<td>Dependent on H4A and H4B Only partially accepted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>H4 A</td>
<td>The perception regarding the effect of disclosure of information on competence is</td>
<td>Independent sample's &quot;t&quot; test</td>
<td>$t=3.689$, $p=0.001$</td>
<td>Accepted</td>
</tr>
<tr>
<td>Hypothesis No.</td>
<td>Statement of Null hypothesis</td>
<td>Tool to test the hypothesis</td>
<td>Significance</td>
<td>Result</td>
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<tr>
<td>H4B</td>
<td>The perception regarding the effect of disclosure of information on reputation is different in two environments</td>
<td>Independent sample t test</td>
<td>$t=0.532, p=0.599$</td>
<td>Rejected</td>
</tr>
<tr>
<td>H5</td>
<td>The amount of resistance to Basel II by the personnel of banks is different in different environments</td>
<td>Independent sample t test</td>
<td>$t=0.405, p=0.689$</td>
<td>Rejected</td>
</tr>
<tr>
<td>H6</td>
<td>The perception that successful implementation of Basel II will avert financial crises is different in different environments</td>
<td>Independent sample t test</td>
<td>$t=4.369, p&lt;0.001$</td>
<td>Accepted</td>
</tr>
<tr>
<td>H7</td>
<td>The readiness for implementation of Basel II is affected by type of ownership</td>
<td>Chi-square</td>
<td>$\chi^2=4.658, p=0.097$</td>
<td>Rejected</td>
</tr>
<tr>
<td>H7A</td>
<td>Understanding of Basel II is related with ownership type</td>
<td>Chi-square</td>
<td>$\chi^2=6.964, p=0.031$</td>
<td>Accepted</td>
</tr>
<tr>
<td>H7B</td>
<td>Perceptions related to Relevance of Basel II, its impact and benefits are related with type of ownership</td>
<td>No test could be applied as the other state was absent</td>
<td>-</td>
<td>Rejected</td>
</tr>
<tr>
<td>H7C</td>
<td>Implementation status and acceptability is dependent on type of ownership</td>
<td>Chi-square</td>
<td>$\chi^2=11.250, p=0.004$</td>
<td>Accepted</td>
</tr>
<tr>
<td>H7D</td>
<td>Pricing and Implementation Strategy is dependent on type of ownership</td>
<td>Chi-square</td>
<td>$\chi^2=6.667, p=0.036$</td>
<td>Accepted</td>
</tr>
<tr>
<td>H8</td>
<td>Ability to bear the cost of implementation of Basel-II is related to type of ownership</td>
<td>ANOVA</td>
<td>$F=6.426, p=0.005$</td>
<td>Accepted</td>
</tr>
<tr>
<td>H9</td>
<td>Relevance and adequacy of risk management processes is different for different types of ownerships</td>
<td>ANOVA</td>
<td>$F=7.319, p=0.003 &amp; F=19.215, p&lt;0.001$</td>
<td>Accepted</td>
</tr>
<tr>
<td>H10</td>
<td>The perception regarding the effect of disclosure of information is different for different types of ownerships</td>
<td>Dependent on 10A and 10B accepted</td>
<td>Only partially accepted</td>
<td></td>
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</tbody>
</table>
INFERENCES

On the basis of results obtained and analysis thereupon in the light of statistical tools and secondary data, the following inferences were made:

1. **Banks lack openness of information**: While collecting the primary data for the study, the banks were reluctant to opine, share views, give information about their preparedness for Basel II and the current status in that context. At the one hand, the back office operations are being outsourced; the banks are keeping curtains on the less sensitive information despite being assured of confidentiality. As a matter of fact, the study was planned to be conducted as a survey covering the entire study universe in both the countries, however, owing to reluctance of banks to participate, finally the study was finally conducted using
convenience sampling technique only. Among those who responded, the aspect of Basel-II posing greatest concern for industry was found to be Pillar III (8.3%), which is concerned with sharing of information implying that it's not going to be easy to change the tradition conservative approach of bankers to conceal more and reveal less. There are still apprehensions amongst bankers that disclosure of information may affect their competence (mean score 2.333±0.922).

2. **Banking universe is open for all players:** Today, ownership restrictions on banking operations are no more existing both in UAE and India, the ownership of banks is diversified, there are private banks, public sector/government banks, cooperative banks while leaving room for the foreign banks too. The era of nationalisation of banks seems to be a forgotten story, now the rule is for efficiency and performance.

3. **Much demand for Improved Risk Management:** Today, market forces govern the business – there is a solution for each demand. As regards the risks in the financial world, everybody wants a cover against it. It was observed during the course of study that even making the preparation for Basel II improved the risk management as it helped people to think about the potential areas of risk.

4. **Operational Risks:** Cause of much worry. As far as the level of concern of the banks was concerned operational risks under Basel-II attracted greatest concern. This implies that the banks who participated in the study are still not clear about the various safeguards provided by the Basel II on the issues of operational risks. Being relatively a recently covered area under Basel II, its efficacy is not fully understood by the respondents.

5. **Banking is going to be more competitive:** Majority of respondents feel that banking is going to be more competitive in future as the main
impact of Basel-II. Given the huge costs that one has to bear for implementation and adaptation to Basel-II, the smaller banks are apprehensive of being affected and are trying to make themselves competent in the changed environment.

6. Much more to do to understand the concepts: Very low scores for the items related to complexity (2.33±1.18) indicate that the very basic concepts of Basel II are not well understood by the banks. Structuring of almost all the processes and business operations by banks, which usually were subject to discretion earlier, apprehends the banks about its complexity, though with the use of modern information technology tools, it's going to be too easy, rather than being complex.

7. Lack of right people for the right job: Basel II seems to be a complex riddle for the banks which though they are determined to solve, however as yet they have not even identified the problem (as depicted by low scores for identification of processes), leave apart the task of finding the right person for the right job. Use of third party/specialized personnel to analyze the market risks is below the desired levels.

8. Credit Adjudication – A Paradox: With the confusing risk weight calculations (for e.g. for a corporate house rated Below BB- the calculated risk weight is 150% while for an unrated corporate house the same is 100% which is equivalent to those rated as BB+ to BB-; then why will one go for ratings at the first hand?), that's why there are too low scores regarding the relevance of credit adjudication processes (2.500±1.167). Assigning objectivity to each credit seems to be distant dream in an economy like India – is it going to be more discretion (mean score 2.233±0.922) rather than objectivity that is going to rule the roost.

9. From where the money will come?: One of the key areas of concern emerging in the study was adequacy of financial resources (1.83±1.29),
with the global recession on, there is concern regarding the stressed resources.

10. **Risk Management Processes still far from desired**: Very poor scores (1.433±1.104) were obtained for the item adequacy of risk management processes implying that despite much brouhaha about Basel II being an effective tool to manage the risks, the risk management processes as embodied in Basel II accord are being felt to be inadequate by the banks in India and UAE. This may be due to environmental differences between the Asian and Global banking.

11. **Financial Crises – No one can predict**: Asian tigers were humbled within a day, mighty Americans within a span of three weeks, with that kind of history, the burgeoning economies touching the nadir in a short span of time, no-one thinks that Basel II, in any case, is going to be a safe bet against a financial crisis.

12. **Credit Derivatives – Still a distant dream**: Dealing in credit derivatives helps in utilization of resources as well as mobilization of resources, but the complexities, associated risks, restrictions by regulatory authorities and lack of knowledge about its practical implications make credit derivatives still a distant dream.

13. **Trident of Statistics, Data sufficiency and Modeling**: Very low scores for statistical modeling for implementation (1.833±1.206), inadequacy of availability of data these are the main blockers in the path of achieving the goals of Basel II. In statistical tools, the forecasting is based on historic evidence, in the absence of adequate database, the statistical modeling will be adversely affected and will be lacking its effectiveness.

14. **Environment Plays a role**: As regards the issues related to clarity of the concepts and preparedness, the mean scores for items complexity
and provisions for risks adding to costs of operations, the Indian banks seem to have significantly higher positive responses as compared to the banks in UAE, thereby underscoring the significance of environment, however, in case of issues related to relevance of Basel II, its impact and benefits in two different environments the itemwise differences were more pronounced showing shifting of swings from item to item in either direction, the mean scores for relevance of credit adjudication and relevance of capital allocation processes had significantly higher positive scores as compared to those in UAE while for items such as adequacy of risk management processes, relevance of risk management processes, increase in liabilities of staff on personal level, increase in personal discretion, disclosure of information affecting competence, reduction of risk with specified provisions, environment not suitable for development of credit derivative markets, UAE banks had significantly higher positive scores as compared to banks in India. However, on the issue of implementation status and acceptability no significant difference between the two environments, thereby implying that despite readiness, preparedness, impact assessments and perceived notions about benefits – there is still confusion while implementing the accord.

15. Does ownership matter?: Most of the times yes! As regards basic understanding of concepts and preparedness the foreign banks seem to be have higher understanding than the government and private banks, in this regard government banks seem to lag much behind. On the issues related to relevance of Basel II, its impact and benefits too foreign banks take the lead while government banks and private banks assume the second fiddle for different items. On the implementation and acceptability front too the foreign banks are on the driver’s seat while private banks are on the pillion seat, as regards government banks they can be said to be following the former two on a bicycle.
CONCLUSIONS

1. The study pointed out that there is lack of complete understanding on the main spirit of New Basel Capital Accord through the three pillars specified in the Accord and their implementation in the Banks across India and UAE is half-hearted, for which understanding of the concepts, financial resources, inadequacy of data and prevalent practices related to risk management and credit adjudication are responsible.

2. In both the countries, regulatory authority is exercising greater controls, though in UAE, the grounds are not open for private banks as yet. Though UAE lacks a rich history of commercial banking as compared to India, yet the practices adapted by it and progress made by it are outstanding. Still banking on the burgeoning oil economy, the UAE banks have lesser experience of facing the market adversities as compared to Indian banks. The regulatory guidance of the Indian banks was driven for a long time by the emphasis on long time apart from being a part of mixed economy. However, the common things between these two nations' economy and banking systems may be that both systems are working towards achieving a stable economy.

3. Major areas of concerns/obstacle in respect to implementing the Basel II in the banks with special reference to commercial banks in India and UAE were related to lack of clarity about basic concepts, lack of financial resources, apprehensions regarding dissemination of information leading to competitive disadvantage and doubts related to relevance of various provisions in the Basel II accord, inexperience of working with a systematic and structured approach was also one of the major impediments.

Most of the banks in India and UAE follow the standardised approach as per the guidelines of the regulating authority to cover the operational risk,
credit risk and market risk; being it a relatively new field, they are not yet using the more advanced tools, for lack of experience as well as resources – both financial and manpower. However, in the long-term they are inclined to use more sophisticated and advanced tools too; Pillar 2 of Basel II accord in terms of preparedness and implementation seems to be have no strong hold on the ground, there are a number of laggards both conceptual and perceptional, as well as adequacy of resources and pressure of meeting the deadlines – the building blocks of the Pillar 2 are being stacked hastily without giving them a concrete basis on which they can strongly hold the weight of the changing banking scenario of tomorrow. As regards Pillar III of the Basel III accord is concerned, there is almost no inclination towards implementing this in its true spirit. The long history of concealing than revealing cannot be changed in a day – meeting the deadlines in this connections seems to be one of the most difficult tasks. It's yet immature to forecast business benefits in such atmosphere filled with utmost confusion and uncertainty, half heartedness and meeting the time frames.

**SUGGESTIONS FOR EFFECTIVE IMPLEMENTATION OF BASEL II**

<table>
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<tr>
<th>S.No.</th>
<th>Findings</th>
<th>Recommendations</th>
</tr>
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</table>
| 1.    | Major Industry Concerns - Complexity, Risk coverage and Pillar III | 1. As Basel II utilizes the advanced statistical modeling tools, which are relatively new to use, appropriate training should be arranged by the regulatory authority.  
2. The distinction between use of traditional methods of risk coverage and those proposed by Basel II should be made emphasizing the evidence-based superiority of Basel II models.  
3. Pillar III is basically concerned with Financial communication and market discipline for which Regulatory authority should make strict rules with constant audits/monitoring. |
<p>| 2.    | Enhanced competition | Newer areas / markets for financial institutions should be identified, awareness regarding importance |</p>
<table>
<thead>
<tr>
<th>S.No.</th>
<th>Findings</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>of quality of service rather than just quantity of service should be created. Banks should understand the relevance of untraditional banking, niche marketing, etc.</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Low Scores on Basic Understanding of Concepts &lt;br&gt; <em>Foreign banks having relatively higher scores</em></td>
<td>Indian Banking Association should include Risk Assessment in Context to Basel II and Financial Communication and Market Discipline as two papers in its Associateship examinations. Similar action is also recommended for the appropriate authority in UAE (Emirates Institute of Banking &amp; Financial Studies) as the situation was similar in both the countries. Inclusion of foreign bank executives as instructor for CAIIB and Banking Diploma programmes in respective countries.</td>
</tr>
</tbody>
</table>
| 4.    | Relevance of Basel-II, its impact and benefits <br> *Private sector players showing relatively low scores.* | In training itself, use of simulated modeling, situational analysis, case studies should be exhaustively done. To promote and create awareness, a special periodical should be published, wherein the contributors should be encouraged to present their views on different aspects of Basel-II. A toll-free help-desk should be established by the regulatory authority wherein doubts related to various aspects of Basel-II could be removed. On the branch levels, Problem Based Learning Model facilitated by Peer Group should be adapted with meetings at a regular interval. A reward system at circle/zonal levels for the branches providing maximum/best solutions should be started.  
In India, the impact in terms of enhanced personal responsibility and liability is much pronounced – it simply underlines that currently in India banking sector jobs have become less attractive owing to enhanced responsibilities and low remuneration – with increase in responsibilities and liabilities – proper compensation should be ensured.  
For private banks, a mandatory training programme is recommended at each level, compliance to which should be monitored strictly and should be incorporated in the personnel appraisal system too. |
| 5.    | Low acceptability on intellectual functions, adequate acceptability on physical facility creation | Basel II implementation is not a programme dependent solely on creation of physical facilities and forgetting the intellectual facilities, in contrast it depends on use of more of intellectual abilities and thereby reducing dependence on physical facilities. |
Abstract

<table>
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<tr>
<th>S.No.</th>
<th>Findings</th>
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<tr>
<td></td>
<td>Foreign banks showing a relatively strengthened position</td>
<td>Keeping in view the above observation, Banks should try to attract the best intellectual talent in their fold. Establishment of professional institutions specifically targeted for banking sector should be given priority. Collaboration with existing institutions such as those related to Risk Assessment and Management should also be enhanced with special emphasis on development of curricula for different levels of banking professionals. Study of the practices of foreign banks should also be conducted in order to learn from their experience.</td>
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<td>6.</td>
<td>Low scores on Pricing and Implementation Strategy</td>
<td>Better coordination between various channels involved in strategic decisions will result in having a better pricing and implementation strategy. Both for pricing and implementation issue coordination upto branch level is also necessary. Use of better communication technology is the key. Structuring the pricing processes will reduce reliance on decisions on discretion basis, rather it will result in timely responsiveness to changing environment. UAE banks have better pricing strategies as they were thriving in a burgeoning economy, where they could have charged price for each service offered by them, an international exchange programme will help in understanding the issues involved in determination of a pricing strategy and them applying them effectively.</td>
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GENERAL SUGGESTION

1. Creation of Awareness, clearing concepts, education regarding the benefits of Basel II implementation should be done more intensely by the appropriate authorities.

2. All the stakeholders should be made aware that risk management should be viewed as an opportunity to increase shareholder value and not just as a loss-avoidance technique.
2. The study has been academic in nature. Hence, the sample size chosen has been one based on feasibility. The study could have been more extensive.

3. The sample size chosen for the study could be a limitation.

4. Lack of availability of published books in UAE libraries has been a handicap.

5. Time and cost have been limiting factors.

FUTURE RESEARCH

The present research was the first in its nature for not only taking into account the physical preparedness but also taking note of various perceptions and beliefs of the strategy-makers. The study points out the need of increased education as regards the understanding of the Basel II. As Basel II should be viewed as a continued process towards improvement and value addition for shareholders and not just as a tool to minimize the loss, further improvements, change in the mindset of decision makers with experience will change the situation giving room for further research to understand the impact more clearly.