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IMPLICATION OF BASEL 3 ACCORD ON INDIAN BANKING: PUBLIC BANKS VERSUS PRIVATE BANKS

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Abstract

Across the globe financial catastrophe of 2007-2008 laid the foundation for more resilient Basel norms. Greater focus on the capital quality in the bank's balance sheet and introduction of capital conservation buffers aided to withstand aftermaths of financial distress. Adherence to Basel III capital adequacy norms has again posed novel challenges for the banks to make necessary adjustments in their capital bases. Further with the announcement of RBI for the compliance to Basel III capital adequacy norms the Indian Banks should maintain a minimum overall CAR of 11.5% (against the current 9%) by March 31, 2018. Basel Norms in Indian banking have to be fully implemented by 2019 in a phased manner. The main purpose of this research paper is to study the adherence of Basel norms of Indian Public Sector Banks viz.-a-viz. Private Banks. I have made an attempt to outline the preparedness of both these category of banks to adopt the Basel III norms by studying their financial statements.

Keywords: *Financial Catastrophe, Capital Adequacy Ratio, Basel Norms, Capital Conservation Buffers.*

JEL Classification: *E, G, M.*

Introduction

Unwillingness on the part of successive governments in India has failed to showcase and grasp the nettle of radical public sector banks' reforms. The PSBs own more than two-thirds of the assets of the country's banking sector, but earn just about a third of the profits. This implies that the ROA of other banks mainly the domestic private sector banks is over four times that of the PSBs.

The new norms will push up the capital needs of Indian banks by $20 billion to $30 billion i.e. approximately 1 lakh crore to 1.5 lakh crore. Since banks will now need additional capital for doing the same level of business, they may see a sharp drop in their Return on Assets. Year after year the government struggles to ensure that its banks meet minimum capital adequacy requirements while retaining majority state control. This has turn out to be a losing battle, because of the steep erosion in asset quality but asset quality and productivity are mere symptoms, the malaise affecting these banks arises from its governance. The root of the problem stems out due to the following possible reasons: ***Firstly***, the boards of these PSBs are empowered but that too inadequately. After having been taken over by the government through the Bank Nationalization Acts of 1970 and 1980 the government has homogenized its banks, eroding the ability of boards to create differentiation and competitiveness. ***Secondly***, the directors are appointments without any consultation with the bank's chief executives. ***Thirdly***, it is quite ironical that the RBI regulates all banks, but the public sector banks are also the main conduit for a host of government-sponsored development lending programmes, which the private sector banks generally stay out of. ***Finally***, there is a need for one law under which all banks are regulated, irrespective of ownership.

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