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Public Sector Bank's experiences with Basel III's Implementation

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ABSTRACT:

The Principal aim of Basel III is to bolster the capital & liquidity position of banks with international trade engagements to achieve a stronger and more resilient bank (micro level) and banking sector (macro level) as a whole to withstand the financial crisis if it ever occurs. This study attempts to examine in detail the likely impact of the new Basel III rules on strengthening banks system in India and its likely structural change so that banks are better equipped to withstand an economic downturn and even an industry crisis should one occur. In this study, a systematic attempt was made to determine the capital adequacy of banks in India to comply with Basel III.

This research endeavours to evaluate the capital adequacy infrastructure of Government owned banks to comply with Basel III regulations. It gives an idea of the measurements produced by various PSBs to meet Basel III capital adequacy requirements.

Analysis and description are the two main components of this study. This research is for investigation of the likely effect of Basel III implementation on Government owned banks in India. This research is based on second hand information gathered from the websites of RBI, Money control.com and other legitimate sources. Information was gathered for chosen public sector entities for the period 2018-2022 to comprehend the influence of the Basel III rules on bank capital sufficiency.

INTRODUCTION:

Public sector banks are banks in which the government holds greater than 50% of shares, which are listed on the BSE and NSE stock exchanges. They play an essential responsibility in the Indian banking industry. Currently 27 Indian public sector banks including 19 nationalized one, 6 under State Bank of India Group (SBI and its five associates) as well as IDBI and Bharatiya Mahila, bank categorized as other public sector entities.

India PSB has made important contributions in terms of branch expansion into rural, social policy and also to foster national Unity. The 1992 economic reforms brought about a period that necessitated a thorough evaluation of public sector banks. In most of the developing countries' economies had strong support for full privatization of public sector banks, but India rejected this and opted for the restructuring option.

India's banking experience is different and more successful than ever. The banking crisis and the transformation of the banking sector have brought high growth and significant stability throughout world history and India's past. Apart from the reform, Indian public sector banks have demonstrated considerable adaptability, adoption and competitiveness and are succeeding, but some difficulties pertain. Now the main discussion in India is whether it would be beneficial relates to lower public ownership below 51% and governance regulation in public sector banks rather than privatizing them.

Basel III Capital Requirements for Indian Public Sector Banks:

Basel III regulation's phased implementation in India started on 1 April 2013. The transition period for the full implementation of Basel III capital requirements was postponed to 31 March 2019 instead of 31 March 2018, allowing banks to build their capital bases in an orderly and viable manner. Basel III has increased minimum capital requirements. Banks will therefore need to hold more capital to meet Basel III standards. Indian banks require significant capital to meet the mandatory Basel III banking standards.

RBI has also delayed the implementation of the Basel III Net Stable Funding Ratio (NFSR). This mechanism assist the banks to maintain a stable source of funding for their operations, has been delayed until April 2021.At first RBI expected the bank to become 100% NSFR by 1 April 2020.However due to the epidemic, that deadline was delayed twice once in September, in particular.RBI also postponed the implementation of the Basel III market risk framework and Pillar 3 disclosure requirements Implementation from 1 January 2022 to 1 January 2023.

OBJECTIVES OF THE STUDY:

1) To Study how Basel III capital requirements affect PSB performance in India. 2) To Study how the enhanced capital requirements envisioned in BASEL III will affect the sample banks' business expansion.

STATEMENT OF THE PROBLEM:

This Research is being done to evaluate public sector bank's experiences with Basel III's implementation.

LITERATURE REVIEW:

According to a Moody's estimate, in order to comply with Basel-III Norms, PSBs in India must raise between Rs. 1.5 and 2.2 lakh crores over the next four to five years. According to the agency, considering a latest recovery in GDP growth and a steady drop in NPAs from current levels, the PSBs that it grades may require external capital. It opined that "Indian PSBs barely fulfil current minimal capital surcharge and we predict that would be difficult to acquire capital swiftly in the present market" after evaluating 11 PSBs, which represented 62% of net loans. Banks might use the equity markets to obtain money, but given the still-low bank values, they might find it difficult to do so.

Anita Mirchandani and Swati Rathore came to the conclusion that the PSBs in India has sufficient capital to fulfil the capital adequacy requirement while also taking into account the calculated credit growth of 16% in the Indian banking sector. This was done by examining the readiness of the Indian nationalised banks group for Basel-III implementation. It will be more difficult to fully implement Basel-III in the next six years since the focus will be on Tier I capital, which is more heavily weighted toward common equity, rather than capital.

In order to determine if Indian Public Sector Banks (PSBs) have adequate capital for Basel III Accord implementation, Tripathy and Tandon (2015) conducted a research study to assess Indian PSBs' readiness for Basel III Accord implementation. The researchers came to the conclusion that Indian PSBs have adequate capital and may reasonably comply with the Basel III Accord's requirements within the time frames set by the Reserve Bank of India.

RESEARCH METHODOLOGY:

The current study has a descriptive and analytical nature. This study was being done to find out what effect Basel III adoption might have on India's public sector banks. The foundation of this study was on secondary information that was gathered from reliable sources, including the websites of the RBI, Money Control.com, pertinent banks, and other institutions. Data have been gathered for a few PSBs from 2018 to 2022 to help understand how Basel III regulations may affect the capital requirements of banks.

SAMPLE SIZE AND DATA COLLECTION:

Since public sector banks make up more than 70% of the banking industry in India, three major PSB—SBI Group, National Bank of Punjab, and Bank of India—have been chosen for this study. It is clear that these banks account for over 60% of all PSU Indian banks' assets.

ANALYSIS AND INTERPRETATION OF DATA:

The regulatory capital requirement for Indian banks has dramatically increased as a result of the adoption of Basel III regulations. Given that the majority of Indian banks have capital levels far above the required levels, they might not require significant capital to meet the new, harsher standards. The graphs are plotted to analyse capital adequacy and to identify the elements (Gross NPA and Net NPAs).

State Bank of India:

In terms of both revenue and assets, State Bank of India is the biggest supplier of banking and financial in India in terms of both income & assets. With its corporate headquarters in Mumbai, Maharashtra, it is a state-owned company. SBI Group has 57 zonal offices and 14 local offices spread out across the nation's major cities. SBI has always benefited from having a sizable balance sheet and a diverse portfolio. However, the drawback is that it adheres to government priorities.

As of March 31, 2022, the government owned 56.92% of the company. The bank appears to have enough buffers, so any anticipated growth could be managed without the need for additional equity capital.

The graph above displays the trend for SBI's Gross NPA and Net NPA. According to a global guideline, the gross NPA should be between 2 and 3 percent. The gross NPA, which was 10.91% in the 2017–18 fiscal year, steadily declined to 3.97% in the 2021–22 fiscal year. As a result, S.B.I.'s Net NPA will similarly decline, from 5.73% in 2017–18 to 1.02% in 2021–22. The trend of SBI's gross and net non-performing assets (NPAs) shows a decline during the research period, with 38.51% gross and 52.91% net NPAs.

National Bank of Punjab:

It was incorporated in 1894. Bank is unique as it was the first Indian bank that was founded exclusively with Indian capital and has continued to exist today. According to assets, PNB is India's third-largest bank. In addition to having branches in Hong Kong, Dubai, and Kabul and representative offices in Almaty, Dubai, Oslo, and Shanghai, PNB also maintains a banking affiliate in the United Kingdom.

According to the graph (Fig. 2), the level of non-performing assets has steadily decreased, with gross non-performing assets falling to Rs. 92,448 crore as of March 31, 2022, and net non-performing assets falling to Rs. 34,909 crore from Rs. 1,04,423 crore and Rs. 38,576 crore, respectively. The Gross non performing asset ratio increased by 234 bps to 11.78%, and the Net NPA ratio increased by 93 bps to 4.80% on March 31, 2022. Provision Coverage Ratio (PCR) (incl. TWO) increased from 80.14 percent on March 31, 2021, by 146 basis points to 81.60 percent on March 31, 2022. The bank raised equity in the amount of Rs. 1800 crore through QIP, Rs. 1919 crore through Tier-II Bonds, and Rs. 3971 crore through AT-1 Bonds during FY 2021–22.

As of the end of March 2022, the bank's capital adequacy ratio increased to 14.50 percent, as tier I capital at 11.73 percent and CET1 at 10.56 percent. By focusing on better rated clients with low risk profiles, the bank sought to promote sustainable business growth.

Bank of India:

A group of prosperous businessmen from Mumbai created BOI on September 7,1906.Bank of India, with its main office in Mumbai, Maharashtra.It ranks India's fourth-largest PSU bank after State Bank of India, Punjab National Bank, and Bank of Baroda,. The Bank has 4038 branches in India, including specialty branches, distributed throughout all states and union territories. 29 offices (including 5 representative offices), 3 subsidiaries, and 1 joint venture are located abroad.

Gross NPAs fall by 19.33% from Rs. 56,535 Cr in March 2021 to Rs. 45,605 Cr in March 2022,. In March 2022, the gross non performing asset ratio dropped from 13.77% in March 2021 to 9.98%. Additionally, the Net Non performing asset ratio decreased from 3.35% in March 2021 to 2.34% in March 2022. The Bank's Capital Adequacy Ratio was 17.04% under the Basel III framework, which is higher than the legal requirement of 11.5%.

The Bank's public shareholding is currently 18.59%; in order to achieve the required public shareholding criteria outlined in the Security Contracts (Regulation) Rules of 1957 and the SEBI (LODR) Regulations of 2015, the Bank must increase this shareholding to at least 25%.

On March 31, 2022, the Bank's CET-1 Capital at 14.02% while it's total Capital Adequacy Ratio (CAR) was 17.04% (minimum requirement: 11.50%).The Bank plans to raise additional capital during FY 2022–23 to meet the anticipated increase in assets with a view to maintaining a enough buffer of CET 1 capital based on the assumptions of growth in Risk Weighted Assets and ploughing back of earnings.

Conclusion:

For many years, Bank has been expanding with very great care and there is constant requirement of capital. In order to meet this growing requirement and also to increase the public shareholding, the Bank should proposes to raise capital by way of Qualified Institutions Placement (QIP) /public issue, rights issue, Follow on public offer (FPO)/ private placement / preferential issue of equity shares or such different modes of issue, in accordance with Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018 and as amended up to date and other applicable Regulations / Guidelines of SEBI/RBI in this regard the management of Bank should establish effective credit monitoring-Strategy, proper evaluation of credit proposals, proper training to the staff in credit risk management, continuous performance evaluation of borrowers, develop proper management information system and improving the coordination between the banks and defaulters of loan. So that NPA can be reduced to great extent.

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