

Implementation of Basel III in Indian Banking System

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Abstract

Initially Basel regulations were designed for G 10 countries only. But its benefits and mechanism provide it widespread acknowledgement and global acceptance. In India, similar guidelines as the Basel accord were introduced by Reserve Bank of India in 1992. In 2005, India became Basel II compliant. Banks in India started reporting their financials under Basel III with effect from September 2013. Since implementation of Basel III is going on, it is essential to know what problems Basel III brings to the Indian banking sector. Thus, the opinion of public and private banks regarding Basel III is analyzed and an attempt is made to find out which factor is the biggest obstacle in implementing Basel III. Among various challenges complexity in Basel III implementation and cost involved are ranked highest. Comparison between the opinion of the public and private banks is also made using Mann-Whitney U test. Results indicate that there exist no significant difference between their opinions. It can be concluded that overall Basel accords have a positive impact on the Indian banking sector. Although Basel III brought several difficulties, its implementation will bring more advantages.

I. Introduction

BASEL ACCORDS WERE introduced in 1988 but the Reserve Bank of India (RBI) introduced these norms in 1992 which were to be implemented in 4 years. Although these norms were new in Indian banking system, capital regulation existed on one. RBI had taken various measures to manage risks and ensure adequate liquidity through Health Code Systems 1985-86. While implementing the Health Code System, on November 7, 1987, RBI advised all commercial banks to categorize the individual advances under the following 8 sections and to assign a Health Code to each loan account.

HC₁: Satisfactory
HC₂: Irregular

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