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INDIAN BANKING REFORMS BASEL III FINANCIAL REGULATION AND SUPERVISION

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Abstract

In India late 1991, the gradual changes of the international and national financial system has increased risks that banks have to face and has required stronger and more accurate instruments to monitor, to measure and to manage credit risks. The Basel Committee on Banking Supervision has developed a new framework for capital regulation based on three pillars. The New Capital Accord increases substantially the risk-sensitivity of the minimum capital requirements. The most important difference between the proposals and the current Accord is the fact that Basel II & III comprises multiple options from which banks and supervisors will select various approaches in calculating the minimum capital requirement. This paper aims to point out that an improved Basel Accord is intended to foster a strong emphasis on risk management and to encourage ongoing improvements in banks' risk assessment capabilities. The risk assessment is a key mechanism for ensuring the stability of individual banks as well as the system as a whole. But judgements of risk and capital adequacy must be based on more than an assessment of whether a bank complies with the first pillar regulatory minimum. The inclusion of second pillar will therefore provide benefits through its emphasis on the need for strong risk assessment capabilities by banks and by supervisors alike.

Introduction

The Basel Committee on Banking Supervision provides a forum for regular cooperation on banking supervisory matters. Its objective is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide. It seeks to do so by exchanging information on national supervisory issues, approaches and techniques, with a view to promoting common understanding. At times, the Committee uses this common understanding to develop guidelines and supervisory standards in areas where they are considered desirable. In this regard, the Committee is best known for its international standards on capital adequacy; the Core Principles for Effective Banking Supervision; and the Concordat on cross-border banking supervision.

The Committee's members come from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

This Committee encourages contacts and cooperation among its members and other banking supervisory authorities. It circulates to supervisors throughout the world both published and unpublished papers providing guidance on banking supervisory matters. Contacts have been further strengthened by an International Conference of Banking Supervisors (ICBS) which takes place every two years.

The Committee's Secretariat is located at the Bank for International Settlements in Basel, Switzerland, and is staffed mainly by professional supervisors on temporary secondment from member institutions. In addition to undertaking the secretarial work for the Committee and its many expert sub-committees, it stands ready to give advice to supervisory authorities in all countries.

The Basel Committee usually meets four times per year. The Basel Committee on Banking Supervision reports to a joint committee of central bank Governors and (non-central bank) heads of supervision from its member countries (as listed above).

The Reserve Bank of India has also adhered to the Guidelines on Capital Measures and Standards, as given by the Committee on Banking Regulation and Supervision. The Main Objective of Basel Committee are

1. To Stop Reckless lending by Bank
2. To Strengthen the Soundness and Stability of the Banking System and
3. To have a comparative footing of the banks of different countries.

The Committee headed by Shri. M. Narasimham has accepted the norms laid for Capital adequacy Standards, by Basel Committee on Banking Supervision (BCBS) in 1991. All Major economies had accepted the Basel norms, for as whole strengthening the Global Banking Industry, thereby protecting from financial crisis. The Basel III look forward to improve the Banking Sector capability, Risk Management and Banks intelligibility.

Late during G-20 Summit at Seoul, November 2010, the member countries approved the Basel III framework for International Banking System. Adhering to the framework, the Monetary Authority Reserve Bank of India has spelt out the implementation of the Basel III Prudential norms. This Process coined during January 2013. The Main highlights are

- The Banking Sector's efficacy to withstand the Economic and Financial Crisis.
- In Improving the Risk Management and Corporate Governance.
- Throws strong light on Bank Transparency and Disclosures.

The Basel III structures remained unchanged, reinforcing the three pillars.

Pillar 1: Minimum Capital Requirement based on Risk Weighted Assets (RWAs)

Pillar 2: Supervisory Review Process

Pillar 3: Market Discipline

Capital Adequacy Ratio (CAR)

Indicates that every bank should maintain a minimum capital adequacy ratio based on capital funds and risk assets. As per the Prudential norms, all Indian Scheduled Commercial Banks (excluding regional rural banks) as well as foreign banks operating in India are required to maintain capital adequacy ratio (or capital to Risk Weighted Assets Ratio) which is specified by RBI from time to time.

CAR = Capital Fund (Tier I & Tier II) / Risk Weighted Assets + Off Balance Sheet Items.

Capital is divided into two tiers according to the Characteristics / qualities of each qualifying instrument. Tier I consists mainly of Share Capital and disclosed reserves and it is a bank's highest quality capital because it is fully available to cover loses. Tier II capital is of certain reserves and some type of subordinated debt. Here the absorption capacity is lower than that of Tier I Capital.

Tier I Capital (also known as Core Capital) provides the most permanent and readily available support to a bank against unexpected losses. The elements of Tier I Capital includes Paid-up Capital (ordinary shares), statutory reserves and other disclosed free reserves, including share premium, Perpetual Non-Cumulative Preference shares (PNCPS), Innovative Perpetual Debt Instruments (IPDI), Capital Reserves surplus arising out of sale proceeds of assets (DBOD.No.BP.BC. 17/21.01.002/2011-12 dated July 1, 2011) and reduced by intangible assets, brought forward losses and Deferred Tax Asset (DTA)

Tier II Capital comprises elements that are less permanent in nature or are less readily available than those comprising Tier I Capital. The main elements are undisclosed reserves, revaluation reserves, general provision and loss reserves, hybrid debt capital instruments, subordinated debt, investment reserve account..

History of Banking Reforms in India

In 1991, after Liberation, Privatisation, Globalisation India presently placed as the third largest emerging economy in the world. During the earlier period India late 90's termed as under developed economy. It has grown significantly in terms of economic development both internally and cross broader countries a after the Financial Crisis where Indian Currency being devaluated and forced to pledge the gold. Prior, during 1969 many of the Banks were nationalised.

During the period, recognising the essential needs of the Banking sector accelerated. The role played by the Reserve Bank in helping the Government of India for the implementation of the plan for economic reforms when Shri. Dr. Manmohan Singh was the Union Minister for Finance. It's been a very difficult time in our country's economic history during the regime of Congress Government headed by Shri. P. V. Narasimha Rao, 21 June 1991 – 16 May 1996.

Based on the recommendation made by the Union Ministry of Finance for reforms in the banking and financial sectors, the Finance Ministry of Government of India (GOI) has set up various committees with the assignment of analysing India's banking sector recommending legislation and regulations to make it more effective and efficient. Two such expert Committees were set up under the chairmanship of Shri. M. Narasimham. The Report of the M. Narasimham Committee outlined a wide-ranging of reforms which served as a blue print of what needed to do in following years. They submitted their recommendations in reports widely known as the Narasimham Committee-I (1991) report and the Narasimham Committee-II (1998) Report. The first Narasimhan Committee (Committee on the Financial System – CFS) was appointed by Shri. Dr. Manmohan Singh as India's Finance Minister on 14 August 1991 and the second (Committee on Banking Sector Reforms) was appointed by Shri. P.Chidambaram as Finance Minister in December 1997. Consequently, the first one widely came to be known as the Narasimham Committee- I (1991) and the second one as Narasimham-II Committee (1998). This commentary is about the recommendations of the Second Narasimham Committee, the Committee on Banking Sector Reforms.

This Committee recommended for merger of large Indian banks to make them strong enough for supporting international trade. It recommended a three tier banking structure in India through establishment of three large banks with international presence, eight to ten national banks and a large number of regional and local banks. This proposal had been severely criticized by the RBI employees union. The Committee recommended the use of mergers to build the size and strength of operations for each bank. However, it cautioned that large banks should merge only with banks of equivalent size and not with weaker banks, which should be closed down if unable to revitalise themselves. Given the large percentage of non-performing assets for weaker banks, some as high as 20% of their total assets, the concept of "narrow banking" was proposed to assist in their rehabilitation.

There were a string of mergers in banks of India during the late 90s and early 2000s, encouraged strongly by the Government of India (GOI) in line with the Committee's recommendations. However, the recommended degree of consolidation is still awaiting sufficient government momentum.

Committee Recommendation on Capital Adequacy and Tightening of Provisioning Norms

To improve the inherent strength of the Indian banking system the committee recommended that the Government should raise the prescribed capital adequacy norms. Shri. Dr. C. Rangarajan, the then RBI Governor took the financial reform task further forward in many crucial areas, including especially the ending of automatic monetisation of the government's deficit. This would also improve their risk taking ability. As stated in its recommendation, the committee targeted raising the capital adequacy ratio to 9% by 2000 and 10% by 2002 and have penal provisions for banks that fail to meet these requirements. For asset classification, the Committee recommended a mandatory 1% in case of standard assets and for the accrual of interest income to be done every 90 days instead of 180 days.

To implement these recommendations, the RBI in Oct 1998, initiated the second phase of financial sector reforms by raising the banks' capital adequacy ratio by 1% and tightening the prudential norms for provisioning and asset classification in a phased manner on the lines of the Narasimham Committee-II report. The RBI targeted to bring the capital adequacy ratio to 9% by March 2001. The mid-term Review of the Monetary and Credit Policy of RBI announced another series of reforms, in line with the recommendations with the Committee, in October 1999.

Unlike the era of the 1960s to 1980s, India is no longer insulated from the global economy and yet its banks survived the 2008 Global financial crisis relatively intact. In general with economic reforms, financial sector reforms in India implemented at a gradual pace. The Reserve Bank of India has played a major crucial role in this transformation process of reforms. It opened the economy to foreign trade, lowered tariffs and switched over to a market determined exchange rate. These recommendations not only helped unleash the potential of banking in India, they are also recognised as a factor towards minimising the impact of global financial crisis starting in 2007. Most of the recommendations of the Committee have been acted upon

although some major recommendations are still awaiting action from the Government of India.

When the crisis exploded in September 2008, the RBI rapidly reversed its earlier tightening of credit to meet the new and changed circumstances. The CRR and the repo and reverse repo rates rapidly lowered in a series of quick steps. Some initiatives were also taken to enhance access to bank credit by Non Banking Finance Companies. Signs of panic withdrawals from some private sector banks in the initial weeks of the crisis were met with strong reassurances by both the Government and the RBI that our banks were sound and would be fully supported. The Indian financial system remained steady in these very hard times seems a major attainment in financial and economic management. In global perspective late 2009-10 the developed economies registered slow growth rate, whereas on the other hand India's emergered with stronger growth rate in savings and investment registering 35 and 37 percent respectively towards GDP. India is geographically located in a continent which is gaining more importance in economical, social, political, technological and legal consensus by providing good environmental influences. These being witnessed by registering a inclined GDP growth rate.

Nationalisation of Banks

In the modern perspective, Banking in India originated in 18th century. The first banks were the Bank of Hindustan, recognized in 1770 and liquidated during 1829–32 and the General Bank of India, established in 1786 but unsuccessful in 1791. The largest bank, and very oldest still in existence, is the State Bank of India. S.B.I initially originated as Bank of Calcutta in June 1806 and in 1809 renamed as the Bank of Bengal. These three banks funded by a presidency government, the other two by Bank of Bombay and the Bank of Madras. These three banks merged in 1921 to form the Imperial Bank of India, which upon India's independence, became the State Bank of India in 1955. Many years the presidency banks had acted as quasi-central banks, as did their successors, until the Reserve Bank of India was established in 1935, under the Reserve Bank of India Act, 1934.

Late 1960, the State Banks of India was given control of eight state-associated banks under the State Bank of India (Subsidiary Banks) Act, 1959. During 1969, the Government of India issued an ordinance passed related to Banking Companies Ordinance, 1969 and nationalised the 14 largest commercial banks with effect from the midnight of 19 July 1969. The Parliament passed the Banking Companies Bill and obtained the President approval on August 9, 1969. In 1980, 6 more private banks were nationalised to give more credit delivery. These nationalised banks are the majority of lenders in the Indian economy. They control the banking sector because of their large size business exposure and widespread networks across India.

In the early 1990s, the then government embarked on a policy of liberalisation, licensing a small number of private banks. These came to be known as ***New*** Generation tech-savvy banks, which incorporated Global Trust Bank (the first of such new generation banks to be set up), which later amalgamated with Oriental Bank of Commerce, UTI Bank (since renamed Axis Bank), ICICI Bank and HDFC Bank. This move strengthen the banking sector in India, seen rapid growth with strong contribution from all the three sectors of banks, specifically Government Banks, Private Banks and Foreign Banks.

Further Reforms in the Banking Sector

In moving ahead to next stage, the Indian banking sector proposed relaxation of norms in foreign direct investment The Government of India is considering to increase the foreign investment limit in public sector banks to 49 per cent from 20 per cent with a view to attract overseas inflows. Currently, 20 % of foreign Direct Investment is permitted for Public Sector Banks under approval route of the Government is also applicable to the State Bank of India and its associate Banks. During 2016, the GOI has relaxed the Foreign Direct Investment norms for the private sector banks. This 74% limit will include investment under the Portfolio Investment Scheme (PIS) by FIIs/FPIs, NRIs and shares acquired prior to September 16, 2003 by earlier OCBs, and continue to include IPOs, Private placements, GDR/ADRs and acquisition of shares from existing shareholders., provided no change in Management Control. Portfolio Investment permitted to 49 percent in private sector banks which are inclusive of 74 percent. The relaxation in the FDI leads to increase in Inflow of Capital

for the Banks to sustain themselves leaving limited support from the Government towards State-owned banks.

During August 2015, the Government of India under revamp plan " Indradhanush " to infuse Rs. 70,000 crore to State owned banks over a period of four years, further Rupees 1.1 lakh crore from the markets to meet their capital requirements in line with risk norms under Basel III. Stepping ahead in the budget by Government of India, PSU banks will get Rs 25,000 crore this fiscal and also in the next fiscal. Besides, Rs 10,000 crore each would be infused in 2017-18 and 2018-19. Of the Rs 25,000 crore earmarked for 2015-16, the government has pumped in about Rs 20,088 crore in 13 public sector banks.

In June 2016, the Cabinet approved the merger of State Bank of India (SBI) and five of its subsidiary banks to make it a global-sized bank. State Bank of India will merge five of its associate banks with itself from April 2017. SBI first merged State Bank of Saurashtra with itself in 2008 and two years later State Bank of Indore was merged with it. With the merger of all the five associates, SBI is expected to become a lender of global proportions with an asset base of Rs 37 trillion (Rs 37 lakh crore) or over USD 555 billion, 22,500 branches and 58,000 ATMs. It will have over 50 crore customers. In April, 2017 there happens largest consolidation in the banking space, five associate banks and Bharatiya Mahila Bank were merged on April 1 with SBI, putting the lender in the league of top 50 global banks. Enthused by the success of SBI merger, the Finance Ministry is considering clearing another such proposal in the public sector banking space by this fiscal end with a goal to create 4-5 global sized lenders. Union Minister for Finance Shri. Arun Jaitley on several occasions said India needs 5-6 banks of global size and scale to further consolidation in the banking sector will be done at the appropriate time. The future merger proposals in the banking sector will also require clearance from the Competition Commission of India (CCI) to see if the merged entity is going to create a monopoly. Big players like Bank of Baroda can take over some turnaround banks in the southern region such as Indian Overseas Bank. Dena Bank could be merged with some large South Indian bank. The merger may be of a very weak bank with a strong bank and on the recommendations of the appropriate authorities and regulators.

In the recent union budget 2017, the Union Ministry of Finance has given signal for infusion of further capital to 10 PSBs banks amounting to Rs. 8586 crores. The identified 10 banks are Allahabad Bank (Rs. 418 crore); Andhra Bank (Rs. 1,100 crore); Bank of India (Rs. 1,500 crore); Bank of Maharashtra (Rs. 300 crore); Central Bank of India (Rs. 100 crore); Dena Bank (Rs. 600 crore); IDBI Bank (Rs. 1,900 crore); Indian Overseas Bank (Rs. 1,100 crore); UCO Bank (Rs. 1,150 crore) and United Bank of India (Rs. 418 crore). The identified PSBs require to execute Memorandum of Understanding (MOU) with Government of India, PSB management and employees of the PSB concerned. This MoU is to perform all the participants to the conformity for a time bound plan commencement 2017-18 onwards with quantifiable and calculable milestones which can be monitored on quarterly basis, according to the Finance Ministry.

In May 2017, the Cabinet has cleared Banking Regulation (Amendment) Ordinance, 2017. This Ordinance enables the Union Government to authorize the Reserve Bank of India (RBI) to direct banking companies to resolve specific stressed assets. The promulgation of the Banking Regulation (Amendment) Ordinance, 2017 inserting two new Sections (viz. 35AA and 35AB) after Section 35A of the Banking Regulation Act, 1949 enables the Union Government to authorize the Reserve Bank of India (RBI) to direct banking companies to resolve specific stressed assets by initiating insolvency resolution process, where required. The RBI has also been empowered to issue other directions for resolution, and appoint or approve for appointment, authorities or committees to advise banking companies for stressed asset resolution. This action of the Union Government will have a direct impact on effective resolution of stressed assets, particularly in consortium or multiple banking arrangements, as the RBI will be empowered to intervene in specific cases of resolution of non-performing assets, to bring them to a definite conclusion.

Reforms in New Capital Adequacy Framework

RBI was in association with the Basel Committee on Banking Supervision late 1997. India was among the 16 non-member countries that were consulted in the drafting of the Basel Core Principles. Reserve Bank of India became a

member of the Core Principles Liaison Group in 1998 and subsequently became a member of the Core Principles Working Group on Capital. Within the working group, RBI has been actively participating in the deliberations on the New Accord and had the privilege to lead a group of six major non-G-10 supervisors which presented a proposal on a simplified approach for Basel II to the Committee.

Basel II & III is recommendatory framework for banking supervision, issued by the Basel Committee on Banking Supervision in June 2004. The objective of Basel II & III is to bring about the International convergence of capital measurement and standards in the banking system. The Basel Committee members who finalised the provisions are primarily representatives from the G10 Countries, but several countries that are not represented on the committee have also stated their intent to adopt this framework.

RBI, in April 2007, has issued guidelines on the New Capital Adequacy Framework to banks operating in India, based on the Basel II & III framework. These guidelines replaces the ones issued in April 1992, when RBI had implemented the first set of recommendation of the Basel Comittee, known as Basel I. Sarma and Nikaldo (2007) has established Indian banking system performed reasonably well during the Basel I regime, with an average CAR of about 12 percent, higher than the internationally accepted level of 8 percent and the RBI's minimum requirement of 9 percent. The Indian Banking system stood ahead of China and Bangladesh. Compared to emerging markets, performance in CRAR by Indian Banks matches, with South Africa, Malaysia and in developed countries with Australia and Canada.

Capital adequacy is an indicator of the financial health of the banking system. It is measure by the Capital to Risk-weighted Asset Ratio (CRAR). Financial Regulators generally impose a capital adequacy norm on their banking and financial systems in order to provide for a buffer to absorb unforeseen losses due to risky investments. A Well adhered to capital adequacy regime does not play an important role in minimizing the cascading effects of banking and financial sector crisis. Tier I capital is the core measure of a bank's financial strength from a Regulators point of view. In addition to raising the quality and level of the capital base, there is a need to ensure that all material risks are captured in the capital framework. Failure to capture major on and off balance sheet risks as well as derivative related exposure was a key factor that amplified the crisis. This particular topic aims on one particular prudential regulation, i.e capital adequacy requirement in the banking sector in India and on the preparedness of Public sector banks to comply with the Basel III norms.

In terms of Basel compliance on rating of the Corporate borrowers, six domestic credit rating agencies CARE, CRISIL, FITCH India, ICRA, Brickwork Ratings and SMERA have been accredited for the purpose of risk weighting the banks' claims for capital adequacy purposes. The long term and short term ratings issued by these domestic credit rating agencies have been mapped to the appropriate risk weights applicable as per the Standardised Approach under the Basel II Framework.

Earlier from June 13 2017, as per RBI notification (RBI/2016-17/321 DBR.No.BP.BC.74/21.06.009/2016-17), that banks may also use the seventh rating agency INFOMERICS Valuation and Rating Pvt Ltd. (INFOMERICS) for the purpose of risk weighting their claims for capital adequacy purposes in addition to the existing six domestic credit rating agencies. Basel III Capital Regulations are being implemented in India with effect from April 1, 2013 in a phased manner (Master Circular No.DBOD.BP.BC.2/21.06.201/2013-14 dated July 1, 2013 on "Basel III Capital Regulations")

Implementation of Basel III Capital Regulations in India – Capital Planning

In view of the implementation of Basel III Capital Regulations, banks need to improve and strengthen their capital planning processes. While conducting the capital planning exercise, banks may consider the potential impact of the changing macro-economic conditions and the outcomes of periodic stress tests on the adequacy and composition of regulatory capital. A forward looking capital planning process will enable banks to appropriately assess the level of capital needed to support their business strategies over the medium-term.

The capital requirements may be substantially lower during the initial years as compared to later years of full implementation of Basel III Guidelines. Accordingly, banks should keep this aspect in view while undertaking their capital planning exercise. Boards of banks should

actively engage themselves in the capital planning process and oversee its implementation.

Of late, industry-wide concerns have been expressed about the potential stresses on the asset quality and consequential impact on the performance / profitability of the banks. This may necessitate some lead time for banks to raise capital within the internationally agreed timeline for full implementation of the Basel III Capital Regulations. Accordingly, the transitional period for full implementation of Basel III Capital Regulations in India is extended upto March 31, 2019, instead of as on March 31, 2018. This will also align full implementation of Basel III in India closer to the internationally agreed date of January 1, 2019.

Basel III Transitional Arrangements

In terms of Basel III Capital Regulations issued by the Reserve Bank of India, the Capital Conservation Buffer (CCB) is scheduled to be implemented from March 31, 2015 in phases and would be fully implemented as on March 31, 2018. Further the implementation of CCB will begin as on March 31, 2016. Consequently, Basel III Capital Regulations will be fully implemented as on March 31, 2019. The Transitional Arrangements has indicated revised as under:

Transitional Arrangements-Scheduled Commercial Banks (excluding LABs and RRBs) (% of RWAs)							
Minimum capital ratios	**April 1, 2013**	**March 31, 2014**	**March 31, 2015**	**March 31, 2016**	**March 31, 2017**	**March 31, 2018**	**March 31, 2019**
Minimum Common Equity Tier 1 (CET1)	4.5	5	5.5	5.5	5.5	5.5	5.5
Capital conservation buffer (CCB)	-	-	-	0.625	1.25	1.875	2.5
Minimum CET1+ CCB	4.5	5	5.5	6.125	6.75	7.375	8
Minimum Tier 1 capital	6	6.5	7	7	7	7	7
Minimum Total Capital*	9	9	9	9	9	9	9
Minimum Total Capital +CCB	9	9	9	9.625	10.25	10.875	11.5
Phase-in of all deductions from CET1 (in %) #	20	40	60	80	100	100	100

* The difference between the minimum total capital requirement of 9% and the Tier 1 requirement can be met with Tier 2 and higher forms of capital;
# The same transition approach will apply to deductions from Additional Tier 1 and Tier 2 capital.

Table: Minimum capital conservation standards for individual bank			
Common Equity Tier 1 Ratio after including the current periods retained earnings			**Minimum Capital Conservation Ratios (expressed as % of earnings)**
As on March 31, 2016	**As on March 31, 2017**	**As on March 31, 2018**	
5.5% - 5.65625%	5.5% - 5.8125%	5.5% - 5.96875%	100%
>5.65625% - 5.8125%	>5.8125% - 6.125%	>5.96875% - 6.4375%	80%
>5.8125% - 5.96875%	>6.125% - 6.4375%	>6.4375% - 6.90625%	60%
>5.96875% - 6.125%	>6.4375% - 6.75%	>6.90625% - 7.375%	40%
>6.125%	>6.75%	>7.375%	0%

Sources: Reserve Bank of India

The Government of India is in discussion with the Reserve Bank of India to explore ways to defer the full implementation of international capital norms or Basel-III norms for Indian banks which are floundering in bad debt. An extended timeline to meet the capital needs would provide the necessary breather to banks to lend more while they grapple with bad loans and raise capital. It is imperative for banks to meet the Basel-III regulatory norms by March 2019.

According to the norms laid down by RBI, Indian lenders have to maintain a minimum common equity ratio of 8% and total capital ratio of 11.5% by 2019. As of March

2017, state-run banks maintain an average common equity ratio of 8.5%. Some public sector banks (PSBs) are however struggling and already four lenders are under the prompt corrective action plan of the regulator.

According to RBI estimates, state-run banks would require Rs 1 lakh crore while the entire banking sector would require an additional capital requirement of Rs 5 lakh crore to meet the norms by 2019. Banks may not be able to raise the required capital, which would curtail their ability to lend. This comes at a time when stressed assets of banks rose to Rs 7.4 lakh crore at the end of March 2017 from Rs 7 lakh crore a year ago. Eventually that some advanced economies are already looking to defer the full implementation of the global banking regulatory norms.

Conclusion

Prudential Regulation will result in greater stability of the banking industry. Public sector banks in India need to exercise controls over the capital, liquidity and leveraging of banks to ensure that they have the ability to withstand crises. Basel III will set off a process of churning in the Indian banking industry. It is expected that there will be a process of consolidation in the Indian Banking Industry through a process of mergers and acquisitions which will culminate in the bigger banks acquiring the smaller ones. Basel III incorporates stability in the banking system where micro prudential regulations ensure the viability and risk compliance of individual banks while macro prudential guidelines target the stability of the banking system as a whole.

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