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Original Research Paper

"A STUDY ON AWARENESS AND PERCEPTION OF BASEL II ACROSS INDIAN BANK"

Management

KEYWORDS: Basel II, awareness, perception

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ABSTRACT

Basel Accords, which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision. Basel II attempted to accomplish this by establishing risk and capital management requirements to ensure that a bank has adequate capital for the risk the bank exposes itself to through its lending, investment and trading activities. One focus was to maintain sufficient consistency of regulations so to limit competitive inequality amongst internationally active banks. The main purpose behind this study is to see the awareness & perception of BASEL-II across INDIAN BANK. We found that only 27% of respondent is having thorough understanding of Basel II and 73% of respondent is having somewhat understanding of Basel II.

1. Introduction

The Basel Committee, established by the central-bank Governors of the Group of Ten countries at the end of 1974, meets regularly four times a year. It has four main working groups which also meet regularly. 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. In 1988, the Committee decided to introduce a capital measurement system commonly referred to as the Basel Capital Accord. This system provided for the implementation of a credit risk measurement framework with a minimum capital standard of 8% by end-1992. Since 1988, this framework has been progressively introduced not only in member countries but also in virtually all other countries with internationally active banks. In June 1999, the Committee issued a proposal for a revised Capital Adequacy Framework. The proposed capital framework consists of three pillars: minimum capital requirements, which seek to refine the standardized rules set forth in the 1988 Accord; supervisory review of an institution's internal assessment process and capital adequacy; and effective use of disclosure to strengthen market discipline as a complement to supervisory efforts. Following extensive interaction with banks, industry groups and supervisory authorities that are not members of the Committee, the revised framework was issued on 26 June 2004. This text serves as a basis for national rule-making and for banks to complete their preparations for the new framework's implementation.

Countries are represented by their central bank and also by the authority with formal responsibility for the prudential supervision of banking business where this is not the central bank. The present chairman of the Committee is Mr Stefan Ingves, Governor of Sveriges Riksbank, who succeeded Mr Nout Wellink on 1 July 2011. The Committee's Secretariat is provided by the Bank for International Settlements in Basel. The 17 person Secretariat is mainly staffed 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.

2. Literature Review

Md. Kabir Ahmed (2007) the major concern for the banking sector of Bangladesh is that implementation of Basel II will cause banks to raise capital appreciably and thus undermine their existing capital position. In such a situation subordinated debt can play a complementary role in enhancing bank capital. Pillar II of Basel Accord II emphasizes supervisory review process. To this end, subordinated debt can provide quality market signal which can be used by the supervisors to identify distress in bank management. Pillar III of Basel Accord II argues that financial market would discipline banks. Since investors in subordinated debt face maximum potential financial loss, they have the incentive to closely monitor bank activities and may react promptly through the financial market. Therefore, a policy guideline for subordinate debt seems to be an immediate necessity for smooth transition to Basel II. This is likely to strengthen capital mix of banks, help to develop the bond market and facilitate harmonization of capital regulation in South Asia.

Rahul Sharma ,Abhishek Tulsyan ,Sikha Kedia, Gourav Modi ,Praveen Didwania (2008) study put the light on Basel II framework provides significant incentives to banks to sharpen their risk management expertise to enable more efficient risk-return tradeoffs; it also presents a valuable opportunity to gear up their internal processes to the international best standards.

Anthony Munyaradzi Makwiramiti (2008) In this study, through the comparative analysis of the general implementation issues it was established that emerging countries apply all Basel II rules uniformly across all the banking institutions that operate in their territories. Developed countries apply these rules only to large and internationally active banks and because of the diversity of their banking industries, they also apply domestically modified rules to the domestically based banks. For the successful implementation of Basel II, properly planning, devoting bank resources and making necessary legislative amendments are prerequisites for incorporating Basel II into the regulatory framework for any country. The study concludes that the current global financial turmoil continues to pose a threat to the effectiveness of the Basel II rules which are aimed at achieving global financial stability.

Marcus Haas (2009) this paper analyzes the extent to which continental European banks use loan loss provisions (LLPs) to smooth earnings volatility over the time period from 2005 to 2008. Differences in income smoothing over time are likely to be attributable to the implementation of the International Convergence of Capital Measurement and Capital Standards: a Revised Framework (Basel II), which was put into effect in the European Union in 2007. The incentives for more aggressive earnings smoothing behavior under Basel I may reverse, since Basel II decreases the discretion to smooth earnings via LLPs. The empirical results show that earnings smoothing has decreased after 2006. This outcome is strongest for banks using an internal rating based (IRB) approach to calculate capital requirements and for the largest banks of the sample.

Md. Akhtaruzzaman (2009) the paper examines the potential impact of Basel II on the developing economies, in particular reference to Bangladesh. A pilot testing model for Basel II parallel calculations are being employed to measure the impact of capital requirements of Mercantile Bank Limited, a commercial bank in Bangladesh. The

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result shows that the capital requirement to comply with Basel II has been increased by 41.94% as compared to Basel I capital requirements. The capital requirement under Basel II regime increased due to additional burden of capital from Market Risk and Operational Risk. There are many possible negative impacts of an unchecked implementation of Basel II. However, Basel II is here to stay and the competitive forces will compel banks to follow the example. The option here is to decide what form of the Basel II norms should be applied and to what extent to ensure the survival and growth for the developing economies. Ultimately, the norms are for strengthening the banking systems globally and this objective should not be lost. Developing Economies need to be prepared and to adapt to the changing global conditions and to adapt the norms to their own advantage.

3. Methodological Framework

This study is undertaken to check the awareness and perception of BASEL-II in Indian Banks. It is important to know about Basel II so that banks can enhance competitive advantage in relation to banks that do not adopt the new guidelines. It is very important for international competition and attempts to ensure that its implementation maintains the aggregate regulatory capital requirements as obtaining under the current accord. The new framework deliberately includes incentives for using more advanced and sophisticated approaches for risk measurement and attempts to align the regulatory capital with internal risk measurements of banks subject to supervisory review and market disclosure. It is Descriptive research design that is used in the study. It is a non-probability sampling technique that is a two-stage restricted judgmental sampling. We used chi-square, K-s test, t-test as an analysis tools. The analysis made as a part of this study would help to improve the performance of the banks. We had selected ICICI bank, HDFC bank, Axis bank, Kotak Mahindra bank, Yes bank, State bank of India, Punjab national bank, Bank of Baroda, Canara bank, Bank of India as our sampled Banks.

4. Data Analysis and Interpretation

4.1 Chi - square test:

H0: There is no relationship between understanding level of Basel II and experience of employee.

Particular	0-1 year	2-5 year	6-10 year	> 10 year	Total
Thorough understanding	0	7	0	4	11
Somewhat understanding	3	3	12	11	29
No understanding	0	0	0	0	0
Total	3	10	12	15	40

Tabulated value	Calculated value	Results
5.35	14.75	Null cannot be accepted

As per the Chi-square test tabulated value is 5.35 and calculated value is 14.75. It indicates that calculated value is greater than tabulated value. Means Null hypothesis rejected. It shows the relationship between understanding of BASEL-II and experience of employee.

4.2.1 K-s Test 1(Credit risk):

Sr. No.	Hypothesis	Calculated Value	Table Value	Result
H01	There is no relationship between ranks given by the employees to the approaches of credit risk.	5.01	0.23	Null cannot be accepted
H02	There is no relationship between ranks given by the employees to the approaches of operational risk.	1.86	0.23	Null cannot be accepted
H03	There is no relationship between ranks given by the employees to the approaches of market risk.	1.17	0.23	Null cannot be accepted

Here, for all three hypothesis calculated value is more than table value so, null hypothesis cannot be accepted. It means that there is a relation between ranks given by the employees to credit risk and market risk.

4.3.1 Independent T- test: (For Different Parameter)

Table 1: T-test for Different Parameter

Sr. No.	Hypothesis	Significance Value	Result
H01	There is no significant difference in agreement level for the statement "Technology" is important parameter for implementation of Basel II between public and private banks.	0.00	Null cannot be accepted
H02	There is no significant difference in agreement level for the statement "Personnel" is important parameter for implementation of Basel II between public and private banks	0.25	Null accepted
H03	There is no significant difference in agreement level for the statement "Credit Policy" is important parameter for implementation of Basel II between public and private banks.	0.00	Null cannot be accepted
H04	There is no significant difference in agreement level for the statement "Internal Rating" is important parameter for implementation of Basel II between public and private banks.	0.00	Null cannot be accepted
H05	There is no significant difference in agreement level for the statement "Infrastructure" is important parameter for implementation of Basel II between public and private banks.	0.46	Null accepted

From the above table we found that there is significance difference in Technology, Credit Policy and Internal Rating of BASEL- II between Public and Private Banks. While in Personnel and infrastructure, there is no significance.

4.3.2 Independent T- test: (For Important Criteria)

Table 2: T-test for Important Criteria

Sr. No.	Hypothesis	Significance Value	Result
H01	There is no significant difference in the agreement level for the statement "Capital Adequacy" is the most important criteria for bank between public bank and private banks.	0.00	Null cannot be accepted
H02	There is no significant difference in the agreement level for the statement "Market Discipline" is the most important criteria for bank between public bank and private banks.	0.197	Null accepted
H03	There is no significant difference in the agreement level for the statement "Supervisory Review" is the most important criteria for bank between public bank and private banks.	0.324	Null accepted

From the above table, we found that Capital Adequacy, Market Discipline and Supervisory Review have significance into BASEL - II in to public and private banks.

5. Conclusion:

BASEL- II is most important for Capital Adequacy, Market Discipline and Supervisory Review for both public and private banks. But there is difference in to the agreement level of these criteria in to public and private banks. As per ranks given by employees to credit risk, market risk and operation risk are same as ranks given by the BASEL- II. The parameters like Technology, credit policy and internal ratings are different in to public and private banks. There is no difference of personal and infrastructure into public and private banks. BASEL-II accord is same for all the banks but some variation has been seen to adoption and ranking given to parameter as well as criteria in to public and private banks. Based on this research we found that if all banks implement BASEL-II accord properly than surely result of banks will be improve.

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