SJIF IMPACT FACTOR: 2.996 CRDEEPJournals
International Journal of Social Sciences Arts and Humanities Mayur Parmar Vol. 5 No. 2 ISSN: 2321 – 4147
International Journal of Social Sciences Arts and Humanities Vol. 5 No. 2. 2017. Pp. 37-40

Full Length Research Paper

Basel III Norms: A Study on Awareness Level of Bank Employees of Selected Banks in Saurashtra Region

Mayur Parmar
Assistant Professor, Department of Business Management, Saurashtra University, Rajkot, India.

Article history
Received: 01-12-2017
Revised: 10-12-2017
Accepted: 12-12-2017

Corresponding Author
Mayur Parmar
Saurashtra University, Rajkot, India.

Abstract
The New Regulatory Framework Basel III is a continuation of Basel I and Basel II initiatives of the Basel Committee on Banking Supervision (BCBS). The framework targets to strengthen global capital and liquidity regulation in order to inculcate prudent practices in capital markets and foster a strong international financial system. Key elements of this framework require financial institutions to strengthen the capital requirements for counterparty credit risk exposures. There is a need for bank employees to have sufficient understanding of the Basel-III accord in order to guide the banking growth rate in the positive direction. Lack of awareness among employees regarding the new Basel-III accord affects banks negatively The objective of the paper is to find out the level of awareness as well as the Perception among bank employees about the Basel-III norms and also examines the efforts made by them for implementing it in their banks. For this purpose Managers at various level of four public and three private Banks of Saurashtra region of Gujarat were asked to give their opinion through a questionnaire. The sample consisted of 60 persons. Answer given by them were analysed based on frequency tables and percentages. Based on their answer given we can infer that the Awareness level of Employees regarding various aspects of Basel – III Norms was comfortably high.

Key words: *Banks, Basel – III, Basel Norms, Employee Awareness, Saurashtra Region*

Introduction

Global standards for capital are a relatively recent innovation. Basel I came into force in 1988, related only to credit risk, and was relatively simple. Before then, there were no standardized rules on capital adequacy for banks. In 1996, market risk rules were added. In December 1998, the BCBS recognized that Basel I needed to be revised to reflect credit risk more effectively and to prevent increasing use of arbitrage by the banks that were using more and more sophisticated internal models to measure and understand risk. The Committee also decided to recommend a capital charge for operational risk. Basel II was born and took five years to develop and then a further four years to implement. Basel II has only been in place since January 2007 (or 2008 for those on the advanced approaches under Basel II: credit risk regulatory requirements may be calculated using one of three methods which are, in increasing order of sophistication, the Standardized Approach (“SA”); the Foundation Internal Ratings Based approach (“FIRB”); and, Advanced Internal Ratings-Based approach (“AIRB”). Most large international banks use AIRB for the majority of their exposures). In some countries it had not been implemented when the crisis hit (for example the US).

The Committee’s remit extends a long way beyond capital adequacy. Its other global standards and consultations include, for example, liquidity risk, deposit insurance, risk management, corporate governance, stress testing and alignment of risk and reward. The Committee’s conclusions and recommendations do not have legal force: its role is to formulate supervisory standards and guidelines. It recommends best practices in the expectation that individual authorities will implement them through detailed national arrangements – statutory or otherwise – which are best suited to their own national systems. The Committee encourages convergence towards common approaches and standards without attempting detailed harmonization of member countries’ supervisory techniques. Even in the EU where Basel III will be enshrined in version four of the Capital Requirements Directive (“CRD”), there are likely to be some differences in national interpretation and implementation.

The main aim of Basel III is to improve financial stability. Views on the causes of the financial crisis are well (and extensively) documented. Commentators still argue over some aspects but there is consensus on the key issues. The Report of the de Larosiere Group on the future of European regulation and supervision, published in February 2009 (Report, the high-level group on financial supervision in the EU, chaired by Jacques de Larosiere, 25 February 2009), was an early and excellent contribution that succinctly identified the principal causes of the financial crisis and made detailed recommendations for reform within the European system and globally. Before the crisis, there was a period of excess liquidity. As a result liquidity risk had, for many banks and supervisors, become practically invisible. When liquidity became scarce (particularly as wholesale funding dried up) as the crisis developed, banks found that they had insufficient liquidity reserves to meet their obligations. Also, banks had insufficient good quality (i.e. loss absorbing) capital. Low inflation and low returns had led investors to seek ever more risk to generate returns. This led to increased leverage and riskier financial products. High leverage amplified losses as banks tried to sell assets into falling and shrinking markets, which created a vicious circle of reducing capital ratios and a need to de-lever, which

increased asset disposals. Mark-to-market accounting meant that there was no hiding place as buyers disappeared, prices dropped and trading asset valuations plummeted. Due to a lack of transparency, counterparty credit risk was misunderstood and risk concentrations were underestimated. The interconnectedness of the financial system meant that, when trading counterparties defaulted, the shocks were transmitted rapidly through the system; the necessary shock absorbers were not in place, nor were transparency over the linkages. To make matters worse, the Basel II capital formulae for credit risk are *"procyclical"*. This means that as a downturn develops the probability of borrower default and loss at default both increase, which means that regulatory capital requirements increase. This should be dealt with through Pillar 2 capital planning buffers but the risks had been underestimated by banks and supervisors alike. Under Basel II, Pillar 1 calculates the minimum regulatory capital requirements for credit, market and operational risk; Pillar 2 covers the supervisory review process where supervisors evaluate whether banks should hold more capital than the Pillar 1 minimum; and Pillar 3 aims to encourage market discipline by specifying disclosure requirements to be made by banks to the market. All the above meant that banks had to turn to their central banks for liquidity support and some to their governments for capital injections or support in dealing with assets of uncertain value for which there were no other buyers. Several major institutions are still dependent on state (i.e. taxpayer) support. In response to the crisis, the basel proposals have five main objectives:
(1) Raise the quality, quantity, consistency and transparency of the capital base to ensure that banks are in a better position to absorb losses;
(2) Strengthen risk coverage of the capital framework by strengthening the capital requirements for counterparty credit risk exposures;
(3) introduce a leverage ratio as a supplementary measure to the Basel II risk-based capital;
(4) Introduce a series of measures to promote the build-up of capital buffers in good times that can be drawn upon in periods of stress. Linked to this, the Committee is encouraging the accounting bodies to adopt an expected loss provisioning model to recognize losses sooner; and
(5) Set a global minimum liquidity standard for internationally active banks that includes a 30-day liquidity coverage ratio requirement, underpinned by a longer-term structural liquidity ratio

Tarashev and Zhu (2008) used a standard portfolio credit risk model to estimate links between capital and the probability of bank default, which is treated as a signal for a systemic banking crisis. They interpret the banking system as a portfolio of banks and estimate the loss distribution arising from bank defaults. They concluded that bank failures are correlated and the correlations can be estimated from market information. Allen et al. (2012) make interesting observations about the 'real' cause of concern in relation to Basel III. While they concur that Basel III does threaten to reduce credit supply (and in-turn economic output), they believe the source of this problem is not the need to maintain higher capital. Shah (2013) also agrees that banks' ROE and profitability are bound to fall in the next few years. First, Basel III proposes the phased removal of some components of capital from Tier 1, which implies that banks' capital would decline by approximately 60percent. Second, the risk weightings are projected to surge by almost 200percent. Moreover, the transition from short-term liquidity to long-term liquidity inherently implies a higher cost of funds. Jayadev (2013) considers the views of senior executives of Indian banks as well as risk management experts on how the challenges of Basel III implementation may be answered in the Indian context. At the outset, estimates of capital infusion requirements are to the tune of USD 50 billion (Fitch) and USD 80 billion (ICRA).

The research work that has been undertaken by various researchers pertains to effects of norms either on global scale or with regard to specific countries, which are generally the US, UK, Japan and other developed European countries. As far as India is concern, no much research work has been undertaken to find out the potential effects of the Basel – III on Indian Banking Industry. The main attempt of this study is on how banks will transform itself to these norms, what is the awareness and knowledge level of the Bank Officials.

The study focuses on the awareness level of managers at various positions in branches of selected banks situated in the Saurashtra region. The sample consisted of 60 respondents from four public sector banks and three private banks of Saurashtra region. Primary Data was generated by preparing a structured questionnaire, which was circulated by email. The respondents were asked to duly fill up their responses. The data so collected was systematically analyzed based on frequency tables and percentages calculated.

Findings and Analysis
The study was conducted during the period of September & October 2017.The respondents were from four public and three private banks of Saurashtra region. Primary data was collected from 60 sample respondents

Table – 1: Experience of Respondents

Particular	Frequency	Percentage
0-5 years	25	41.67
5-10 years	20	33.33
More than 10 Years	15	25.00
Total	60	100.00

The table I show that more than 58% of respondents have more than 5 years of experience in the banking sector.

Table – 2: Awareness about Basel iii Accord

Particular	Frequency	Percentage
Yes	60	100
No	0	0
Total	60	100

Table 2 shows that all respondents were aware about Basel III Accord

Table – 3: Level of Understanding

Particular	Frequency	Percentage
High	43	71.67
Moderate	13	21.67
Minimal	4	6.66
Total	60	100.00

Table – 3 shows 71.67 percent of the surveyed respondents had a High level understanding of Basel III, 21.67 percent had a Moderate level understanding and 6.66 percent of the had a very low understanding of Basel III norms.

Table – 4: Ease of Implementation

Particular	Frequency	Percentage
Hard	11	18.33
Moderate	39	65.00
Easy	10	16.67
Total	60	100.00

Table – 4 shows about 81% of the respondents considered Basel III as not hard implementation

Table – 5: Management's Involvement in creating awareness

Particular	Frequency	Percentage
High	53	88.33
Moderate	7	11.67
Minimal	0	0
Total	60	100.00

Table – 5 Shows that the more than 88percent of the respondents agreed that their top management has taken enough steps to create awareness about Basel III.

Table – 6: Will Basel 3 Improve the Overall Performance of Banks?

Particular	Frequency	Percentage
Yes	60	100
No	0	0
Total	60	100

Table – 6 shows that all the respondents thought that the implementation of Basel III would improve the performance of their bank .

The Major findings of the study are:

- *It was found that most of the respondents had a High level of awareness about Basel III.*
- *It was found that 71.67 percent of the surveyed respondents had a High level understanding of Basel III 21.67 percent of the surveyed respondents had a Moderate level understanding and 6.66 percent of the respondents had a very low understanding of Basel III norms.*
- *A majority of the bank's Management have high involvement in creating awareness of Basel III.*
- *All the respondents thought that the implementation of Basel III would improve that performance of their bank.*

Conclusion

The respondents believe that the top management of their banks are doing their best efforts to create general awareness regarding the Implementation of Basel III Norms. Management involvement is also very high. Level of understanding of Managers regarding Basel III is also very high. And it is believed that implementation of Basel III norms will Improve overall performance of banks.

References

Allen, Bill, Ka Kei Chan, Alistair Milne, and Steve Thomas (2012), "Basel III: Is the cure worse than the disease?" *International Review of Financial Analysis*, Vol. 25, 159-166.

Gupta, R. & Bhatt, A.K. (2014). How successful is the Indian Banking System in Exploring to Basel III? Some Exploratory Evidence. *The IUP Journal of Bank Management*, 8(4), 7-19.

Mirchandani, A & Rathore, S. (2013). Basel III Implementation: Readiness of Public Sector Banks in India. *Journal of Emerging Trends in Economics and Management Sciences*, 4(6), 547-553.

Narasimhan and Goel (2013), "Capital Adequacy and its Relevance to the Indian Banking Sector: A Study of Four Indian Banks", *International Research Journal of Social sciences*, Vol. 2(11), 1-5,

Sikdar, P. & Makkad, M. (2014). Shift from Basel II to Basel III –A Reporting Perspective on Indian Banking Sector, *International Journal of Computational Engineering & Management*, 17(1), 35-41.

Yan, Meilan, Maximilian J. B. Hall, and Paul Turner (2012), "A cost–benefit analysis of Basel III: Some evidence from the UK," *International Review of Financial Analysis*, Vol. 25, 73-82.