FAINDINGS

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Topic of the Thesis – Impact of Basel Norms in Indian Banking Industry: An Empirical Study

Keywords – Basel, Capital Adequacy, Risk Management, BCBS, NSFR

This study seeks to find out the impact of Basel Norms in Indian banking industry through three key objectives. The first objective is to find out trends in banking sector in select key ratios during the Basel Norms Implementation period. The second objective is to study the Impact of bank-specific variables on Credit Risk and Profitability of Indian commercial banks. And third objective is to Study the Role of Basel Accords Regulations on Capital and Risk Behavior of listed Indian Commercial Banks.

Under the first objective, some of the key ratios of CAMELS model were used in trend analysis such as Return on Assets (ROA), Capital Adequacy Ratio (CAR), Gross Non-Performing Assets (GNPA), Credit Deposit Ratio (CDR) and Profit\Loss per Employee (PPE) to find out the trends in the ratio over the period 2008-2020. It was found that result was on expected line and similar for both public and private sector banks.

Under the second objective two different models were used for the study. All the variables were based on CAMELS ratios only. It was found that CAR is positively related to ROA in all the time frames as expected. This signifies that banks maintain their existing profit after stricter

capital norms by raising the interest rate on lending, thereby raising the interest spread and hence their profitability rises. Similarly, NPAs and Lending to SEN are on expected lines and have negative and positive results, respectively, with ROAs in all the time frames. This shows that with the rise in NPAs, banks are required to make more provisions, which lowers banks' profitability.

Under the third objective, two simultaneous equations for risk and capital were used for the analysis of data sets. The result indicates that there is a negative relationship between risk and capital of banks. Therefore, it is suggested that banks should focus on reducing NPAs by managing their credit activities, which would ultimately reduce risk and enhance the capital base of commercial banks. Further, the inverse relationship between the size and capital of banks indicates that bigger banks hold a lower amount of capital compared with smaller banks. This suggests that larger banks should hold a capital buffer in addition to capital requirements. It is suggested that considering the cost and human resource skills involved, bankers have to modify their business model in such a way that compliance can be ensured and profitability can be restored in a cost-effective manner. Further, frequent seminars/webinars and workshops to be provided to the workforce along with technological upgradation to cope up with changing regulations and risk environments.