International Journal of Education, Modern Management, Applied Science & Social Science (IJEMMASSS)
ISSN : 2581-9925, Impact Factor: 5.143, Volume 02, No. 03, July - September, 2020, pp.155-159

BASEL III NORMS: PERFORMANCE ANALYSIS OF SELECTED PUBLIC AND PRIVATE SECTOR BANKS

Dr. Mohar Singh*
Charu Watts**

ABSTRACT

The recommendations and implementation of Basel III norms have posed many issues and challenges to the implementing banks and financial institutions for making macro adjustments and reorienting monetary policies. A high and rising proportion of banks stressed loans, particularly those of public sector banks (PSBs) and a consequent increase in provisioning for non-performing assets (NPAs) continued to weigh on credit growth reflecting their lower risk appetite and stressed financial position. An attempt is made in order to evaluate the performance analysis of selected public and private sector banks based on ratios.

Keywords: *Basel III, Asset Management, Non Performing Assets, Ratio Analysis, Liquidity, Core Capital*.

Introduction

The NPAs are considered of the significant factors to judge the performance and financial health of banks. In the present era, the companies and financial institutions such as banks facing a main problem of managing the Non-Performing Assets as these assets are proving to become a major hinder for the growth and the development of the economy. In simple words, NPAs may be defined as the borrower does not pay principal and interest amount for a period of 90 days. If any assets granted by the bank to a borrower become non-performing, then the bank will have to treat all the advances/credit facilities granted to that borrower as non-performing without having any regard to the fact that there may still exist certain advances / credit facilities having performing status. The quality of Indian banks' assets is likely to deteriorate over the next few years.

In this paper an attempt is made to analyze the NPA position of Selected Indian Public and Private Sector Banks with the help of ratios given below represents percentage of gross NPA to gross advances, percentage of gross NPA's to total advances, Percentage of Net NPA's to total advances which identify quality of assets possessed by the banks under study. In addition to elucidate the trend in the movement of the NPA, this paper also describes significant relationship of NPA with banks profitability, Liquidity.

NPAs Classification NPA have been classified into following four types:

- Standard Assets: A standard asset is a performing asset. Standard assets generate continuous income and repayments as and when they fall due. Such assets carry a normal risk and are not NPA in the real sense.
- Sub-Standard Assets: All those assets (loans and advances) which are considered as non-performing for a period of 12 months.
- Doubtful Assets: All those assets which are considered as non-performing for period of more than 12 months.
- Loss Assets: All those assets which cannot be recovered. These assets are identified by the Central Bank or by the Auditors.

---

* Associate Professor, Department of Accountancy and Business Statistics, University of Rajasthan, Jaipur, Rajasthan, India.
** Research Scholar, Department of Accountancy and Business Statistics, University of Rajasthan, Jaipur, Rajasthan, India.

Basel Norm

Basel I norms framed in 1988 and it recommended that a bank's capital to risk weighted asset ratio (CRAR) should be at least 8 per cent. Under the initial Basel I norms, assets were risk-weighted according to their credit risk. Basel II norms which is implemented in 2005 is a more comprehensive framework, including the CRAR computation, and provisions for supervisory review and market discipline. Basel III was supposed to strengthen bank's capital requirements by increasing bank liquidity and decreasing bank leverage. It is implemented in 2013 to 2015 but whole implementation is done up to January 2022.It is a comprehensive set of reform measures designed to improve the regulation, supervision and risk management within the banking sector.

In this paper State Bank of India performance is analyzed in the light of different Basel norms implementation period.

Review of Literature

Saboo P.C., Prof. Mathur T.N. and Dr. Jain M., (2016) in their descriptive study based on secondary data tries to examine the opportunities and challenges faced by the Indian Public Sector Banks in implementing the Basel III norms. The study has revealed that the capital infusion into banks has been a big challenge as the government has not been able to arrange sufficient funds for that purpose. Increasing NPAs has also decreased the net worth of the Indian banks. The Indian Public Sector banks need to improve their risk management structure.

Barua R., Roy M. and Raychaudhuri A., (2015-16) made an analysis as to how Indian banks are positioned to adopt Basel III norms and To study how different the performance of Indian Scheduled commercial banks was under Basel II. Performance of Indian scheduled commercial banks has been analysed category wise by using ratios and the Performance analysis was based on three parameters viz., profitability, strength and soundness. Hypothesis testing is done with the help of t-test. The study reveals that the capital planning process in the banks needs to be more proactive to effectively manage the Basel III impact. Banks would also need to focus on strengthening their risk management system for maintaining stable and stronger assets portfolio.

Mirchandani A. and Rathore S., (2013) have conducted a study with the objective to explore the capital adequacy framework of the Indian Public Sector banks to know about their readiness in implementing the Basel III norms. The study also tries to find out whether the Indian Public Sector Banks have taken adequate measures to implement the capital adequacy norms. The researcher has considered five major Indian Public Sector Banks viz., SBI, PNB, BOB, BOI and Canara bank for the purpose of the study encompassing a period of 5 years from 2008 to 2012. The data so collected are secondary in nature and a trend analysis of each bank for the study period has been made. The study concludes that the Indian Public Sector Banks have adequate capital to meet the immediate capital adequacy requirements of 2008-2012. But complete implementation of Basel III will be a challenging task if the focus is put on the Tier I capital.

Objective of the Study

The basic objective of the study is to analyze the performance of the Selected Public and Private Sector Banks based on Basel Norms.

Period of the Study

Period of Study comprises the period from 2012 to 2018.

Data Collection

Data are collected from RBI website and annual accounts of bank. So study is basically in secondary in nature.

Finding and Interpretation

- **Analysis of Gross NPA to Gross Advances Ratio of Selected Public Sectors Banks under study.**

Gross NPA

Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI Guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss assets. This ratio is always mentioned in terms of percentage which indicates the proportion of the NPA in the advances in gross. The lower the percentage better is the advancing policy. It can be calculated with the help of following ratio: Gross NPAs Ratio = Gross NPAs / Gross Advances.

Formula: Gross NPAs to Gross Advance = $\frac{\text{Gross NPAs}}{\text{Gross Advance}} \times 100$

Table 1: Shows Gross NPAs to Gross Advances for the period of year 2012 to 2018 of selected public and private sector Banks in India.

Banks/year	2012	2013	2014	2015	2016	2017	2018	Average
SBI	4.44	4.75	4.95	4.25	6.5	6.9	10.91	6.1
BOB	1.53	2.4	2.94	3.72	9.99	10.46	13.21	6.32
ICICI	3.62	3.22	3.03	3.78	5.21	7.89	10.55	5.33
HDFC	1.02	0.97	1	0.9	0.94	1.05	1.3	1.03
Average	2.65	2.84	2.98	3.16	5.66	6.58	8.99	

Source: Computed from Data Collected from RBI bank profile and Annual Report of Respective Banks 2012 to 2018)

Table 2: Showing ANOVA for Gross NPAs to Gross Advances for the period of year 2012 to 2018 of selected public and private sector Banks in India. (In Percentage)

Anova: Single Factor						
SUMMARY						
Groups	*Count*	*Sum*	*Average*	*Variance*		
Public Sector Banks	14	86.95	6.210714286	12.92356099		
Private Sector Banks	14	44.48	3.177142857	8.752991209		
ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	64.41788929	1	64.41788929	5.943554925	0.021914556	4.225201273
Within Groups	281.7951786	26	10.8382761			
Total	346.2130679	27				

Gross NPAs to Gross Advance

It is being observed that there is significant difference as far as the Gross NPAs to Gross Advance is concern amongst the selected public and private Sector Banks in India. The ANOVA F-Test (p- value) is 0. 022 which is less than the critical region value 0.05 that indicates there is a significant difference in Gross NPAs to Gross Advance of selected banks.

Hence, Hypothesis H0 is rejected.

- **GROSS NPAs to TOTAL ADVANCES: It is the finding of ratio by dividing Gross NPAs to Total Advance.**

Formula: Gross NPAs to Total Advance = $\frac{\text{Gross NPAs}}{\text{Total Advance}} \times 100$

Table 3: Showing Gross NPAs to Total Advance for the period of year 2012 to 2018 of selected public and private Sector Banks in India. (In Percentage)

Bank/Years	2012	2013	2014	2015	2016	2017	2018	Average
SBI	3.41	3.68	3.9	3.35	5.25	5.92	11.4	9.23
BOB	1.55	2.43	2.99	3.73	10.35	10.89	12.9	11.21
HDFC	1.02	0.97	0.99	0.94	0.95	1.06	1.31	1.81
ICICI	3.73	3.31	3.1	3.9	6.02	9.08	10.55	9.92
Average	2.43	2.6	2.75	2.98	5.64	6.74	9.04	8.04

Source: Computed from Data Collected from RBI bank profile and Annual Report of Respective Banks 2012 to 2018)

Table 4: Showing ANOVA for Gross NPAs To Total Advance for the Period of year 2012 to 2018 of Selected Public, Private Sector Banks in India. (In Percentage)

Summary- ANOVA Single Factor					
Groups	Count	Sum	Average	Variance	
Public Sector Banks	14	81.76	5.84	14.61	
Private Sector Banks	14	46.94	3.35	10	
ANOVA					
Source of Variation	SS	df	MS	F	P-value
Between Groups	123.1	3	41	4.10	0.018
Within Groups	240.2	24	10		
Total	363.3	27			

Gross NPA to Total Advances

It is being observed that there is significant difference as far as the Gross NPAs to Total Advance is concern amongst the selected public and private Sector Banks in India. The ANOVA F-Test (p- value) is 0.018 which is less than the p value 0.05 that indicates there is significant difference in Gross NPAs to Total Advance of selected banks.

Hence, Hypothesis H0 is rejected.

Net NPA to Total Advance

Net NPA: Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks. Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the banks have to make certain provisions against the NPAs according to the central bank guidelines. It can be calculated by following:

If provision amount is deducted from Gross **NPA**, **net NPA** is derived. ... The Reserve Bank of India defines **Net NPA** as **Net NPA** = Gross **NPA** – (Balance in Interest Suspense account + DICGC/ECGC claims received and held pending adjustment + Part payment received and kept in suspense account + Total provisions held).

Net NPA to Total Advances for the period of year 2012 to 2018 of selected private and public banks in India

Table 5: Showing NET NPAs TO TOTAL ADVANCE for the Period of Year 2012 to 2018 of Selected Public and Private Sector Banks in India. (In Percentage)

Bank/Year	2012	2013	2014	2015	2016	2017	2018	Average
SBI	1.36	1.58	1.97	1.63	2.98	3.07	5.66	2.61
BOB	0.54	1.28	1.52	1.85	4.87	4.61	5.36	2.86
HDFC	0.18	0.20	0.27	0.25	0.28	0.33	0.40	0.27
ICICI	0.73	0.77	0.97	1.61	2.98	5.43	5.44	2.56
Average	0.70	0.95	1.18	1.34	2.78	3.36	4.21	8.04

Source: Computed from Data Collected from RBI bank profile and Annual Report of Respective Banks 2012 to 2018)

Hypothesis

H_0: There is No significant difference in Net NPAs to Total Advance among the selected private sector and public sector banks in India.

H_1: There is a significant difference in Net NPA to Total Advance among the selected private sector and public sector banks in India

Table 6: Showing ANOVA for Net NPAs to Total Advance for the period of year 2012 to 2018 of selected public, private Sector Banks in India.

Summary- ANOVA Single Factor					
Groups	Count	Sum	Average	Variance	
Public Sector Banks	14	38.273	2.735	2.916	
Private Sector Banks	14	19.846	1.415	3.469	
ANNOVA					
Source of Variation	SS	df	MS	F	P-value
Between Groups	30.73	3	10.242	3.82	0.023
Within Groups	64.40	24	2.683		
Total	95.13	27			

Net NPA to Total Advances

It is being observed that there is significant difference as far as the Net NPAs to Total Advance is concern amongst the selected public and private Sector Banks in India. The ANOVA F-Test (p- value) is 0.023 which is less than the level of significance 0.05 that indicates there is significant difference in Net NPAs to Total Advance of selected banks.

Hence, Hypothesis Ho is rejected.

Conclusion

The paper concludes that in Public and Private sector bank, there is statistically significant change seen in the selected ratios. It has been found that during the past quarters, asset quality of the Banks has continuously declined. NPAs are the indicator of the asset quality in the banks. The number of NPAs are increasing in the Indian Public & Private Sector banks, which is putting lot of pressure on the profitability of the banks. Study reveals that most of the NPAs of the public sector banks are in the infrastructure sector. Whereas NPAs of these banks in the other sectors like personal, agriculture and industry are almost the same. It has been found that the major reasons behind the rising NPAs is the relaxed lending norms adopted by banks, especially to the big corporate houses, foregoing analysis of their financials and their credit ratings.

References

- Basel III – Implementation. (2020). Retrieved from https://www.fsb.org/work-of-the-fsb/implementation-monitoring/monitoring-of-priority-areas/basel-iii/
- Chandan, C.; and Rajput, P. K. (2002) "Profitability Analysis of Banks in India – A Multiple Regression Approach", Indian Management Studies Journal, June, pp.119-129.
- Cheema, C.S.; and Agarwal, M. (2002), "Productivity in Commercial Banks: A DEA Approach", The Business Review, Vol.8, No. 1 & 2. [6] Kohli, H.; and Chawla, A.S. (2006), "Profitability Trends in Commercial Banks – A Study of Selected Commercial Banks", Indian Management Studies Journal, October, Vol.11, No.2, pp. 51-70..
- Jain, Mukul (2013), 'A Critical Review of Basel III Norms in Indian PU Banks' DRIEM Business Review Vol.1 No. 1 pp 36- 43
- Prasad, K.V.N. and Ravinder, G. (2011), "Performance Evaluation of Banks: A Comparative Study on SBI, PNB, ICICI and HDFC", Advances in Management, Vol. 4(2) September, pp. 43-53.
- PRIYA S. (2014) "an analysis of profitability of private sector bank in India", MGR College, Hosur/ Periyar University, India. [9] Maji, G.S.; and Day, S. (2006), "Productivity and Profitability of Select Public Sector Banks in India: An Empirical Analysis", The ICFAI Journal of Bank Management, Vol. V, No. 4, pp. 59-67.

❖◆❖