JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue
JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

Financial Regulatory Compliance Standards of the Banking Sector and its Impact on Pre and Post 2013

A Manoj Kumar

Department of Management and Commerce, PES University, Bangalore-560100, India

Abstract: This research examines how financial regulations changed in the banking industry in India after 2013, evaluating the effects on governance, compliance, and stability. The research uses narrative and comparative analyses to assess regulatory changes, mainly using secondary data from the Reserve Bank of India (RBI) website and literature studies. After 2013, there have been significant changes in corporate governance, asset quality reviews (AQRs), greater oversight, and the introduction of Basel III. These actions were taken to remedy gaps in pre-2013 requirements related to asset quality recognition, capital sufficiency, and governance shortcomings. The reasoning for regulatory modifications is demonstrated by actual situations. Tables show the differences between the regulations from before and after 2013, emphasizing the advancements and ongoing difficulties. Despite developments, problems like meeting resource limitations and guaranteeing complete compliance still exist. Overall, the banking system has become more resilient as a result of the post-2013 changes; but ongoing adaptation and watchfulness are necessary to reduce new risks and maintain the efficacy of regulations.

I. INTRODUCTION

The banking industry is an essential component in the chain that connects the world's economies, acting as a middleman in financial transactions. To guarantee stability, integrity, and customer protection, its operations are nonetheless heavily regulated. Regulatory compliance requirements in the banking industry have changed dramatically over time, especially in reaction to the 2008 global financial crisis and the changes that followed.

1.1 Background of the topic

In order to guarantee stability and integrity in financial operations, the Indian banking industry has to adhere to a number of regulatory compliance norms. These standards cover a variety of laws pertaining to risk management, capital sufficiency, consumer safety, and anti-money laundering protocols. The principal regulatory body tasked with monitoring banks' adherence to these guidelines is the Reserve Bank of India (RBI). Regulatory frameworks gradually changed prior to 2013, when major changes, including the implementation of Basel III standards and improved supervisory procedures, were made. Banks now need to modify their operations in order to meet more stringent regulatory standards, which has had a significant influence on their operations.

1.2 Need of the topic

- Identifies flaws within the pre-reform regulatory system, including as insufficient capital buffers, problems with the assessment of asset quality, and governance shortcomings.
- By recognizing these flaws, aids in the creation of successful regulatory actions.
- Draws attention to how crucial regulatory changes are to boosting the integrity, resilience, and sustainability of the banking industry.
- Gives policymakers the ability to evaluate the success of post-reform initiatives including the adoption of Basel III and improved risk management frameworks.
- Aids in identifying places where regulatory control has to be improved even further.
- Provides information on ongoing initiatives to support a stable, functional financial system in India that protects the objectives of all parties involved.

1.3 Theoretical implications of the topic

There are many different theoretical ramifications to researching the financial compliance with regulatory requirements in the Indian banking industry before and after 2013. The first benefit is that it adds to the body of knowledge on financial oversight and governance by shedding light on how well regulatory actions maintain integrity and stability within the banking system. Subsequently, examining how regulatory modifications affect banks' performance and operations illuminates the ways in which rules affect organizational actions and decision-making cycles. It is also possible to evaluate the regulatory evolution and its consequences on the efficacy and efficiency of regulations by tracking compliance criteria over time. Our knowledge of the intricate interactions between organizational behavior, regulatory frameworks, and financial security in developing market-based economies like India is expanded by this research, which makes a theoretical contribution.

II. Literature Review

K Hans (2017), With the use of empirical analysis, the research study investigates how Basel regulations have affected the Indian banking sector. It looks into how these international rules affect the stability and operation of Indian banks. Basel standards have a substantial impact on the stability and operations of Indian banks, requiring compliance and adaptation strategies.

SS Chilukuri, KS Rao 2016, This research paper looks at the ratio of nonperforming assets to loans, with a particular focus on the asset quality of the Indian banking sector. It evaluates the incidence and effect of non-performing assets (NPAs) on the banking industry using empirical analysis. Effective risk management techniques are necessary because nonperforming assets represent a serious threat to the viability and efficiency of Indian banks.

M Kumar, GC Yadav 2013, The article offers a theoretical framework for managing liquidity risk in financial institutions. The article highlights the need of proactive management in ensuring financial stability as it addresses methods to detect, quantify, and reduce liquidity risk. Sustaining banks' resilience and solvency in the face of volatile market conditions requires efficient management of liquidity risk.

Debabrata Sharma, Sanjeeb Kumar Dey 2017, The study examines the body of research on corporate governance in the context of Indian banking, examining the variables that affect governance procedures. It investigates how regulatory compliance and bank performance are affected by governance frameworks.To improve performance, accountability, and openness in Indian banks, effective corporate governance is essential.

Thirupathi Kanchu, M. Manoj kumar (2013), An empirical investigation on risk management in the banking industry is carried out in this research report. It looks at risk identification, assessment, and mitigation techniques with the goal of improving knowledge and efficacy of risk management procedures. In the face of fluctuating market conditions, comprehensive risk management is crucial to the stability and sustainability of institutions.

Kamal Kishore (2015), The Basel III standards and their application as a new capital framework for Indian banks are criticized in the study report. It assesses the difficulties, benefits, and ramifications of implementing these rules.The applicability of Basel III rules for Indian banks must be carefully evaluated in light of their particular traits and the state of the market.

Rameeza Rafi, Ravinder Kumar (2018), Non-performing assets (NPAs) in the Indian banking industry are examined in this article along with their present trends and causes. It investigates the causes of non-performing assets (NPAs) and offers solutions for the problem. For the purpose of managing and reducing the impact of nonperforming assets (NPAs) on Indian banks, it is vital to comprehend the trends and causes of NPAs.

Geethanjali Natara, Ashwani (2018), This research paper presents an overview of the regulations governing the banking sector in India, emphasizing issues and suggesting potential remedies. It covers compliance concerns, regulatory frameworks, and recommendations for improving the efficiency and stability of the banking industry. Ensuring a strong and resilient banking s ystem in India requires addressing regulatory constraints.

Aveek Chakravarty (2016), The Reserve Bank of India's (RBI) role in advancing financial inclusion through fintech developments is examined in this study. It examines how regulatory actions are influencing the fintech industry and how they affect increasing access to financial services. Fintech must be effectively regulated by the RBI in order to improve financial inclusion in India.

III. Industry Profile

Financial regulatory compliance standards are a collection of guidelines, rules, and regulations that are put in place by regulatory organizations and governmental entities to guarantee the stability, integrity, and openness of financial markets and institutions. These regulations aim to promote fair and efficient financial processes, safeguard investors, preserve investor trust, and stop financial crimes including money laundering and financing of terrorism. It is imperative that financial institutions and market players adhere to these standards; failure to do so may result in serious consequences, such as fines, sanctions, and legal proceedings.

3.1 Origin and Historical Background:

With the Reserve Bank of India (RBI) being established as the central banking authority in 1935, the regulatory framework for the financial industry in India started to take form. The Indian government passed a number of laws after independence to control various aspects of the financial industry, such as insurance, pension funds, securities markets, and banking. The Banking Regulation Act of 1949 gave the RBI the authority to oversee and control banks in order to guarantee their stability and soundness. In order to oversee the securities markets and safeguard the interests of investors, the Securities and Exchange Board of India (SEBI) was founded as an independent organization in 1988. Additional regulatory agencies were established throughout time to oversee the insurance and pension industries, respectively, including the Insurance Regulatory and Development Authority of India (IRDAI) and the Pension Fund Regulatory and Development Authority (PFRDA).

3.2 Important Aspects

The national banking body in India, the Reserve Bank of India (RBI), is in charge of overseeing the nation's financial system, which includes the banking industry. It establishes regulatory compliance requirements for banks that fall within its purview to maintain the financial system's efficiency, integrity, and stability. Here's an overview of the regulatory compliance standards in the banking sector set by the RBI in India:

1. Prudential rules: The RBI enforces prudential rules to guarantee banks have enough capital, efficiently manage risks, and have enough liquidity. These standards cover capital requirements, asset categorization, provisioning, and sector-specific exposure limitations.

2. Know Your Customer (KYC) Guidelines: To validate clients' identities and determine their risk profile, banks must create and manage customer identification processes by KYC standards. This is essential for stopping the financing of terrorism, money laundering, and other illegal activity.
3. Anti-Money Laundering (AML) procedures: To stop money laundering, banks must have strong AML procedures in place. These include monitoring suspicious transactions, reporting big cash transactions, and doing customer due diligence.
4. Risk Management Framework: Banks are required by the RBI to set up thorough risk management plans that address liquidity, credit, market, and operational risks. Regular risk assessments and the implementation of suitable risk mitigation procedures are mandated for banks.
5. Corporate Governance rules: To guarantee efficient supervision and accountability inside banks, the RBI establishes rules for corporate governance. This covers rules for risk management committees, disclosure obligations, and board makeup.
6. Data protection and Cybersecurity: The RBI has established rules to guarantee the protection of client data and defend against cyber risks in light of the growing digitalization of financial services. Banks must put strong cybersecurity safeguards in place and periodically evaluate the resilience of their IT systems.
7. Consumer Protection: The RBI publishes rules, such as a fair procedures code, grievance procedures, and price transparency for goods and services, to safeguard the interests of bank clients.
8. Financial Inclusion Initiatives: By establishing goals for banks to expand banking services to neglected and unbanked regions of the nation, RBI encourages financial inclusion. Banks must follow regulations for lending to the priority sector, starting simple accounts, and putting financial literacy initiatives into place.
9. Regulatory Reporting obligations: For the RBI to evaluate banks' compliance with prudential standards, regulatory obligations, and financial health, banks must submit quarterly reports.
10. Stress testing and contingency planning: The RBI requires banks to carry out stress tests in order to evaluate how resilient they are to unfavorable economic situations and to create backup plans in order to reduce systemic risks.

IV. Research Design

4.1 Statement of the problem:

This research is done with the motive of understanding the importance of financial regulatory compliance standards prescribed by RBI for banks in India. Through basic research, it was the year 2013 where there were significant financial regulations were introduced in the banking sector by the Reserve Bank of India to eliminate the ineffective compliance standards that were followed before 2013 and make necessary upgradation or by introducing new regulations and comparing the regulations pre and post 2013 to derive if the changes made very effective in the banking sector.

4.2 Research Gap

One potential research gap in the above research could be the assessment of the effectiveness of the regulatory reforms introduced in 2013 in addressing the identified loopholes and strengthening the banking sector in India. Though the statement provides an overview of the regulatory measures implemented by the Reserve Bank of India (RBI), there may be limited empirical evidence or analysis evaluating the impact of these reforms on key indicators such as capital adequacy, asset quality, risk management practices, corporate governance, compliance, and consumer protection.

4.3 Research Hypothesis

The implementation of regulatory reforms and initiatives by the Reserve Bank of India (RBI) since 2013 has significantly contributed to enhancing the stability, resilience, and integrity of the banking sector in India. These reforms aimed at addressing loopholes identified in the pre-2013 regulatory framework, particularly in areas such as capital adequacy requirements, asset quality recognition, risk management practices, corporate governance standards, compliance, and consumer protection measures.

4.4 Research Objectives

- To examine the changes in financial regulatory standards enforced by the Reserve Bank of India (RBI) in the banking sector from pre-2013 to post-2013.
- To identify the key regulatory standards, loopholes present in the pre-2013 regulations, and the effectiveness of updated standards introduced after 2013 in addressing these loopholes.
- To analyze the impact of regulatory reforms implemented by the RBI post-2013 on the stability and compliance levels of the banking sector in India.

4.5 Scope of the study

- The scope of the study encompasses an examination of financial regulatory standards in the Indian banking sector until 2013, focusing on capital adequacy requirements, asset classification, liquidity management, risk management practices, corporate governance standards, compliance, and consumer protection measures.
- Additionally, it evaluates the impact of regulatory reforms introduced since 2013, including Basel III implementation, asset quality recognition, enhanced risk management frameworks, corporate governance reforms, and efforts to improve compliance and consumer protection.

4.5 Research methodology

Since the research focused on getting the data from the website of RBI concerning the banking sector of India to find out the impact of the financial regulatory standards in general for banks

- Method of data collection:

The data which is used for the research is secondary data that is by visiting the RBI website and checking on the regulations page and getting the major Master circulars on the regulations that lacked effectiveness on the bank's compliance and also referred research papers in this background

- Instrument for data collection:

The required data was collected from the RBI website on the Internet and other supporting data were collected from the literature reviews and other websites which is concerned with providing information on the regulations and compliance standards in the banking sector

4.6 Data analysis techniques:

Narrative Analysis: In this analysis, the data was acquired from the Internet that is from the official website of RBI where the Master circular was the main document to review on the new regulations or any upgraded regulations for the previous one

Comparative Analysis: In this analysis, the data was compared between the ineffective regulations before 2013 and the changes made after 2013 and the significant impact it has made on the compliance standards for banks in India

4.7 Limitations of the study:

- The research includes potential biases in the analysis, reliance on historical data that may not fully capture recent developments, and the complexity of regulatory frameworks that may not be fully captured in a single study.
- Additionally, the study may not account for the diverse challenges and contexts faced by individual banks or the broader economic and political factors influencing regulatory effectiveness.

V. Data Analysis and Interpretation

5.1 Reasons for Major Changes in Financial Regulation Standards in 2013:

1. Global Financial Crisis Impact (Dick K. Nanto, 2010): The global financial crisis revealed flaws in the banking industry throughout the globe, prompting a review of regulatory structures. Like many other nations, India thought that tightening banking laws was necessary to avoid future crises of this nature.
2. Basel III Implementation (Hans*, 2015): In response to the financial crisis, the Basel III framework was adopted in 2010 and brought stronger capital requirements, liquidity norms, and risk management criteria for banks. India undertook a major revision of its regulatory standards on April 1, 2013, when it began implementing Basel III requirements in stages.
3. Asset Quality Review (AQR) (Kumar, 2018) : In order to determine the real state of banks' balance sheets and uncover non-performing assets (NPAs) that were disguised, the Reserve Bank of India (RBI) carried out Asset Quality Reviews (AQRs) in 2013. As a result of this initiative, NPAs were recognized more transparently, and asset categorization and provisioning guidelines had to be changed.
4. Enhanced Supervision and Governance (Dhar, 2015): After 2013, the RBI implemented steps to improve governance and oversight standards in banks. This involved making changes to corporate governance policies, bolstering enforcement protocols, and carrying out more thorough inspections to guarantee adherence to legal requirements.
5. Global Regulatory Trends (Shah, 2024): Similar to other nations, India synchronized its regulatory framework with international best practices in order to sustain competitiveness and strengthen the robustness of its banking industry. The 2013 modifications were a part of a larger movement to harmonize worldwide regulatory systems.

5.2 Certainly, here are some real cases that exemplify the reasons for major changes in financial regulation standards in India in 2013:

5.2.1. Global Financial Crisis Impact:

- Case: Collapse of Lehman Brothers in 2008 reverberated globally, including in India, leading to a reassessment of regulatory frameworks. (Dick K. Nanto, 2010)
- Impact: Indian banks faced liquidity challenges and increased risk exposure due to interconnectedness with global markets, prompting regulatory authorities to strengthen oversight and risk management practices.

5.2.2. Basel III Implementation:

- Case: Indian banks, such as State Bank of India (SBI) and ICICI Bank, embarked on capital-raising measures to meet Basel III capital requirements. (Samad, 2013)
- Impact: Adoption of stricter capital and liquidity standards improved the resilience of Indian banks, ensuring they could withstand future financial shocks more effectively.

5.2.3. Asset Quality Review (AQR):

- Case: In 2015, RBI conducted AQRs, uncovering hidden NPAs in various banks, including public sector banks like Punjab National Bank and private sector banks like Yes Bank. (Kumar, 2018)
- Impact: Transparency in NPA recognition improved, prompting banks to adopt stricter asset classification and provisioning norms, enhancing the accuracy of financial reporting and risk management.

5.2.4. Enhanced Supervision and Governance:

- Case: Governance lapses and fraud at companies like IL&FS and PMC Bank underscored the need for enhanced supervision and governance standards. (Dhar, 2015)
- Impact: RBI introduced measures such as Corporate Governance Guidelines 2015 and stricter enforcement mechanisms to bolster governance practices and protect the interests of depositors and investors.

5.2.5. Global Regulatory Trends:

- Case: Implementation of Common Reporting Standards (CRS) in India to combat tax evasion and money laundering, aligning with global regulatory trends. (Shah, 2024)
- Impact: Adoption of CRS improved transparency and compliance, enhancing India's standing in international financial markets and fostering investor confidence.

These cases demonstrate how real-world events and regulatory responses in India align with the reasons for major changes in financial regulation standards in 2013.

Table No: 5.1
Title of the table: Financial Regulatory Standards Before 2013

Financial Regulatory Standards Before 2013		
	Standards	**Loopholes**
Capital Adequacy Requirements (Hans, 2017)	***Capital Adequacy Ratios***: Banks were required by the RBI to have a minimum amount of capital in relation to their risk-weighted assets (RWAs). A minimum Total Capital to Risk-Weighted Assets Ratio (CRAR), made up of Tier 1 and Tier 2 capital, was mandated for banks under Basel II. ***Tiered Capital Structure:*** Capital was divided into Tier 1 (core capital) and Tier 2 (supplementary capital) under Basel II. Common stock and declared reserves made up Tier 1 capital, while additional debt and hybrid instruments made up Tier 2 capital. ***Risk-Weighted Assets Calculation:*** Basel II outlined procedures for dividing up asset types into risk categories according to credit, market, and operational risk. Subject to regulatory permission, banks were required to compute their RWAs using established procedures or sophisticated internal models.	***Risk Weight Manipulation:*** Banks might modify risk weights associated with assets by adjusting internal risk quantification models or by taking advantage of the flexibility in Basel II's standardized methodologies. To lower their RWAs and therefore their capital needs, companies might, for example, misclassify assets or inflate the quality of the assets. ***Regulatory Arbitrage:*** By arranging transactions or utilizing intricate financial instruments, banks can participate in regulatory arbitrage and remove risk from their balance sheets without materially affecting reported capital levels. To artificially lower capital needs, firms can, for instance, securitize assets or participate in off-balance-sheet operations. ***Model Risk and Complexity:*** Regulators may find it challenging to adequately assess internal bank models for risk measurement and management because they may be excessively complicated or vulnerable to model risk. This intricacy may make it difficult to determine the actual risk profile of bank assets and compromise the effectiveness of capital adequacy requirements. ***Capital Quality and Composition:*** Banks may fulfill the minimum capital requirements on paper, but there may be significant differences in the composition and quality of their capital. For example, depending too much on contingent capital instruments or non-core Tier 2 instruments might create vulnerabilities during stressful times and reduce the efficiency of capital buffers.
Asset Classification and Provisioning (SS Chilukuri, 2016)	***Asset Classification:*** It was mandated that banks classify their assets according to several credit grade categories. Standard Assets, Substandard Assets, Doubtful Assets, and Loss Assets were examples of common categories. Usually, the categorization was established by looking at the asset's performance as well as the borrower's repayment habits. ***Provisioning Requirements:*** Banks were required to make provisions for anticipated losses related to each category of assets after assets were categorized. Depending on how the assets were classified, different provisioning criteria applied; riskier categories including Substandard, Doubtful, and Loss Assets needed larger provisions.	***Evergreening:*** By giving new loans or modifying old ones to debtors who couldn't pay back their current debts, banks participated in evergreening tactics. Banks concealed the true credit quality of these loans and postponed realizing any losses by doing this, so artificially maintaining the repayment status of these loans. ***Delaying Recognition of NPAs:*** By not making enough provisions for non-performing assets (NPAs), banks have occasionally avoided or postponed acknowledging them. A number of factors, such as lax loan collection procedures, regulatory forbearance, or managerial discretion, might cause this. Bank asset quality measures were skewed and financial reporting

	Prudential Norms: Prudent guidelines, published by the RBI, outline the minimal provisioning needs for different asset classes. These standards were evaluated and revised on a regular basis to reflect changing risk profiles and economic situations.	integrity was compromised by the delayed detection of non-performing assets (NPAs). ***Inadequate Provisioning:*** Banks may not have made enough provisions to cover the anticipated losses connected with these assets, even after NPAs were identified. Insufficient provisioning resulted in banks being more vulnerable to losses during recessions or unfavorable credit events by understating the actual level of possible credit risks in their portfolios.
Liquidity Management (M Kumar, 2013)	***Liquidity Ratios:*** In order to guarantee that banks keep sufficient liquid assets in relation to their short-term liabilities, the RBI placed liquidity requirements on banks. The Statutory Liquidity Ratio (SLR) and the Liquidity Coverage Ratio (LCR) were two common liquidity measures. ***Statutory Liquidity Ratio (SLR):*** It was mandated that banks hold liquid assets including cash, gold, and government securities as a proportion of their net demand and time liabilities (NDTL). In addition to ensuring banks had enough capital to cover depositor withdrawals, the SLR served as a buffer against liquidity risk. ***Liquidity Coverage Ratio (LCR):*** In order to improve banks' short-term liquidity levels, Basel III implemented the LCR. In order to meet their net cash outflow requirements during a 30-day stress period, banks were required by the LCR to maintain a buffer of high-quality liquid assets (HQLA).	***Excessive Reliance on Short-term Wholesale Funding:*** Banks may depend too much on short-term wholesale funding sources to support their operations, including interbank borrowings or the issue of commercial paper. These funding options offered banks flexibility and cost savings, but they also made them more susceptible to shocks to liquidity, particularly in times of market turbulence or abrupt withdrawals of capital. ***Regulatory Window Dressing:*** Banks may use window dressing techniques to skirt regulations in order to momentarily overstate their liquidity situations during reporting cycles. To momentarily increase their holdings of liquid assets, they could, for instance, enter into short-term transactions like buy-and-buyback agreements or repo agreements without properly addressing the underlying liquidity problems. ***Mismatched Liquidity Profiles:*** The maturity characteristics of banks' assets and liabilities may not match, resulting in liquidity mismatches. They might be exposed to liquidity risk, for example, if they have trouble rolling over their funds or if market circumstances abruptly shift. They might also hold illiquid assets or extend long-term loans financed by short-term liabilities.
Risk Management Practices (THIRUPATHI KANCHU, 2013)	***Comprehensive Risk Management Frameworks:*** Strong risk management frameworks addressing a range of hazards, such as credit, market, liquidity, and operational risks, have to be established by banks. Policies, processes, and control mechanisms were commonly incorporated in these frameworks to efficiently detect, evaluate, track, and alleviate risks. ***Risk Identification and Measurement:*** Banks were expected to use suitable models and procedures to identify and measure the risks inherent in their business operations. This included determining operational risks, reviewing liquidity profiles, assessing market exposures, and determining the creditworthiness of borrowers. ***Governance and Oversight:*** Robust supervision and governance frameworks were essential for effective risk management. It was required of banks to establish separate risk management departments or committees that were in charge of monitoring risk-related operations and making sure regulations were followed.	***Inadequate Systems and Controls:*** Inadequate systems and controls, such as antiquated technological infrastructure, manual procedures, or insufficient automation, may be the cause of weaknesses in risk management methods. These flaws may make it more difficult for banks to identify, evaluate, and react to hazards accurately and promptly. ***Failure to Adapt to Evolving Risks:*** If banks don't adjust to changing risk dynamics—like shifting market circumstances, new threats, or technology advancements—their risk management procedures may become worthless. Banks may use antiquated risk models or frameworks that fail to effectively account for novel or changing hazards, which can result in an undervaluation or improper handling of those risks. ***Underestimation of Certain Risks:*** Due to inadequate attention or inaccurate risk assessments, banks may underestimate some risks, such as concentration risk (too much exposure to a single counterparty, sector, or asset class) or model risk (errors or limits in risk models). This could lead

		to vulnerabilities that are not sufficiently addressed, which could have negative effects during stressful or disruptive times.
Corporate Governance Standards (Debabrata Sharma, 2017)	***Board Oversight and Independence:*** The RBI directed banks' boards of directors to take a leading role in directing the institution's operations, establishing its strategic course, and guaranteeing adherence to legal and regulatory obligations. It was anticipated that boards would include an adequate number of independent directors in order to support unbiased decision-making and efficient supervision. ***Transparency and Disclosure:*** The significance of openness and disclosure in financial reporting and stakeholder communication was underscored by corporate governance guidelines. It was mandated that banks provide accurate and timely disclosures of pertinent information about their governance procedures, related-party transactions, risk exposures, and financial performance. ***Risk Management and Internal Controls:*** To detect, evaluate, and reduce risks, effective corporate governance required the development of strong risk management frameworks and internal control systems. It was the duty of boards and management to guarantee that suitable risk management procedures were followed and that internal controls were successfully put into place and kept an eye on.	***Conflicts of Interest:*** Conflicts of interest resulting from linkages between top management, connected parties, and board members may compromise corporate governance standards. Conflicting interests might jeopardize the independence and integrity of governance processes by causing partiality, biased decision-making, or the misuse of authority. ***Related-Party Transactions:*** Risks of self-dealing, unfair benefits, or resource diversion were present in non-arm's length transactions involving linked parties, such as shareholders, directors, or affiliates. Insufficient disclosure or supervision of transactions between linked parties has the potential to erode shareholder confidence and compromise the legitimacy of corporate governance protocols. ***Concentration of Power:*** The goal of corporate governance principles was to stop the consolidation of power within a small number of people or organizations, such as important executives or dominating stockholders. Overly concentrated authority can lead to unbridled decision-making, inadequate responsibility, and weakened board autonomy, endangering good governance and risk control.

Table No: 5.2
Title of the table: Financial Regulatory Standards After 2013

Financial Regulatory Standards After 2013		
	Updates	**Effectiveness**
Basel III Implementation (Kishore, 2015)	***Higher Capital Requirements:*** Common Equity Tier 1 (CET1) capital ratios were raised as part of Basel III's increased minimum capital requirements for banks. The objective was to improve the overall resilience and capacity of banks to withstand losses. ***Improved Risk Coverage:*** Basel III included extra capital buffers for systemic risks and globally systemically significant banks (G-SIBs), therefore broadening the area of risk coverage. Additionally, it brought in internal model and standardized approaches to capital needs for market risk. ***Additional Liquidity Standards:*** In order to guarantee banks have sufficient liquidity buffers to resist both short-term and long-term liquidity stress, Basel III added liquidity rules, such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).	***Bolstered Capital Adequacy:*** The introduction of Basel III, which mandated that Indian banks retain higher-quality capital and appropriate capital buffers, greatly enhanced the banks' capital adequacy. This lessened the possibility of bank collapses and systemic crises by strengthening their capacity to absorb losses during times of financial stress. ***Enhanced Liquidity Positions:*** The implementation of liquidity rules like the NSFR and LCR enhanced Indian banks' methods for managing liquidity risk. Banks' overall stability and resilience improved as a result of their increased capacity to resist financing interruptions and liquidity shocks. ***Reduced Systemic Risks:*** Basel III's adoption, which improved risk management procedures and encouraged a more cautious approach to capital and liquidity management, was essential in lowering systemic risks in the Indian banking industry. This lessened the likelihood of contagion effects during times of financial turmoil and added to the general stability of the financial system.
Asset Quality Review (AQR) (Rameeza Rafi, 2018)	***Comprehensive Assessment:*** In order to determine the genuine quality of banks' assets, the RBI carried out an extensive examination of their asset portfolio. This included checking the appropriateness of provisioning levels, identifying potentially stressed assets, and closely examining loan portfolios. ***Identification of Hidden NPAs:*** The goal of AQR was to find non-performing assets (NPAs) that were concealed and for which banks had not made sufficient provisions or recognition. This required a careful analysis of provisioning level accuracy and loan categorization procedures. ***Enhanced Transparency:*** Through the correct and timely publication of asset quality measurements, AQR aimed to	***Greater Transparency:*** By precisely identifying and accounting for NPAs, AQR greatly increased the transparency of banks' balance sheets. Due to increased transparency, stakeholders have a better knowledge of the asset quality and risk exposures of banks, which has helped to rebuild investor trust in the industry. ***Recognition of Stressed Assets:*** Stressed assets and impaired loans that were previously unknown or overstated were now easier to identify thanks to AQR. This made it possible for banks to identify the full scope of their issues with asset quality and implement the necessary corrective measures to deal with them. ***Cleaning Up Balance Sheets:*** By guaranteeing the proper categorization and provisioning of non-performing assets, AQR was important in the purging of banks' balance sheets.

	improve the transparency of banks' balance sheets. For investors, regulators, and other stakeholders to appropriately evaluate the financial health and risk profiles of banks, this transparency was essential. ***Strengthening Provisioning Norms:*** The RBI strengthened provisioning guidelines in response to the AQR to make sure banks were allocating sufficient funds for identified non-performing assets. In order to protect their financial stability, banks needed to properly identify and manage credit risks.	For banks to reestablish capital adequacy, regain their financial stability, and start lending again to promote economic growth, this cleansing procedure was essential. ***Restoring Investor Confidence:*** Investor trust in the Indian banking industry was restored by AQR's openness and integrity. Increased investor interest and capital inflows into the industry resulted from investors' restored confidence in banks' risk management procedures and financial disclosures.
Enhanced Supervision and Enforcement (Geethanjali Natara, 2018)	***Intensified Supervisory Actions:*** The RBI stepped boosted the frequency and rigor of its supervision operations to keep an eye on banks' adherence to rules and regulations. This involved evaluating banks' risk management procedures and governance structures through more regular on-site inspections, off-site monitoring, and topic reviews. ***Enhanced Enforcement Measures:*** In order to combat misbehavior in the banking industry as well as inadequacies in risk management, the RBI stepped up its enforcement measures. This entailed punishing banks deemed to be in breach of regulatory obligations, issuing directions, and pursuing other regulatory measures. ***Focus on Emerging Risks:*** The identification and resolution of new risks and vulnerabilities in the banking industry was given top priority under the expanded supervisory structure. As part of this proactive strategy, banks underwent stress tests and specialist examinations to evaluate their resilience to a range of risks, including operational, credit, market, and liquidity issues.	***Promoting Compliance and Accountability:*** Increased responsibility and adherence to regulatory requirements were encouraged by tighter oversight and enforcement tactics for banks and their management. The tighter regulations and penalties for noncompliance encouraged banks to follow prudential guidelines and enhance their risk control procedures. ***Deterring Misconduct:*** The possibility of legal action acted as a disincentive for wrongdoing and malpractice in the banking industry. Because they were aware that breaking regulations may result in heavy fines and harm to their reputation, banks increased the vigilance of their operations and governance procedures. ***Facilitating Early Intervention:*** Improved oversight made it possible for regulators to quickly recognize new risks and weaknesses, allowing for early action to lessen any dangers to the stability of the financial system. Proactive regulatory supervision assisted in preventing risks from growing and anticipating problems before they could become systemic dangers.
Corporate Governance Reforms (Vagrecha, 2017)	***Strengthening Board Oversight:*** The RBI required the establishment of specialized board committees, including committees for nomination and remuneration, risk management, and auditing. To improve supervision and the efficacy of governance, these committees were assigned certain duties. ***Improving Transparency and Disclosure Practices:*** Additional transparency requirements, including as more thorough reporting of financial and non-financial information, were implemented by the RBI. The purpose of this was to provide stakeholders a better knowledge of the governance procedures, risk profiles, and operations of banks. ***Guidelines on Related-Party Transactions:*** Guidelines on related-party transactions were released by the RBI in an effort to reduce conflicts of interest and increase openness. In order to guarantee that related-party transactions are carried out impartially and in the bank's and	***Greater Transparency and Accountability***: The operations, risk exposures, and governance procedures of banks are now more transparent because to the implementation of improved disclosure standards. With increased access to detailed information, stakeholders are better equipped to hold bank management responsible for their actions and make well-informed decisions. ***Improved Board Effectiveness:*** Specialized board committees, which allowed for in-depth examination and concentrated emphasis on important areas like risk management, audit, and compensation, increased the efficacy of board supervision. This made it easier for boards to carry out their fiduciary obligations. ***Mitigation of Conflicts of Interest:*** The release of related-party transaction standards aided in reducing conflicts of interest and stopping the misuse of insider knowledge. To ensure fairness and openness in related-party transactions, banks have to abide by strict disclosure standards and approval procedures.

	its stakeholders' best interests, these rules set forth the processes and requirements for approval.	
Digital and Technological Innovations (Chakravarty, 2016)	***Adoption of Digital Banking Channels:*** *Launch of Mobile Banking Apps:* Banks launched mobile banking programs, enabling users to effortlessly do a range of financial tasks using their cellphones. *Online Banking Platforms:* Banks improved their online banking systems by adding online services for managing accounts, paying bills, and transferring money. ***Fintech Collaborations:*** *Partnership with Fintech businesses:* In order to take advantage of their cutting-edge technology and solutions, banks partnered with fintech businesses. New services and products, including robo-advisory services, digital lending platforms, and payment solutions, were developed as a result of this partnership. *Integration of Fintech Solutions:* To increase operational effectiveness, optimize workflows, and enhance customer experiences, banks incorporated fintech solutions into their current systems and procedures. ***Implementation of Advanced Analytics and Artificial Intelligence (AI) Solutions:*** *Data Analytics Platforms:* To evaluate massive amounts of client data and derive useful insights, banks deployed sophisticated data analytics platforms. These discoveries helped to enhance decision-making, detect possible hazards, and customize services. *AI-driven Chatbots:* To offer 24/7 customer care and assistance, banks have used AI-driven chatbots. Natural language processing (NLP) and machine learning techniques were used by these chatbots to comprehend client inquiries and offer pertinent answers.	***Enhanced Efficiency and Accessibility:*** *Convenience and accessibility:* Customers may receive banking services from anywhere at any time through digital banking channels, which eliminates the need for in-person branch visits and saves time. *Streamlined Procedures:* Fund transfers, loan approvals, and account opening may now happen more quickly because to Fintech partnerships and technology advancements. ***Improved Customer Experience:*** *Personalization:* By tailoring their services according to each client's unique tastes and behaviors, banks were able to increase overall customer satisfaction through the use of advanced analytics and AI technologies. *Fast and Responsive help:* AI-driven chatbots improved client experiences by offering prompt and responsive customer help, answering questions and resolving problems in real-time. ***Facilitated Financial Inclusion:*** *Extension of Banking Services to Underserved Areas:* Digital banking efforts made formal banking services more accessible to individuals and enterprises, facilitating financial inclusion and enabling financial inclusion. *Simplified Account Opening:* Digital account opening procedures made it easier to onboard new clients and increased accessibility to banking services for those who had not or had not banked enough. ***Challenges and Mitigation:*** *Cybersecurity Risks:* To reduce cybersecurity risks and safeguard client data, banks put strong cybersecurity measures in place. These efforts included encryption, multi-factor authentication, and real-time monitoring. *Data Privacy Concerns:* To secure consumer information and guarantee regulatory compliance, banks put strict data protection systems in place and complied with data privacy laws.

Overall, the Indian banking industry is now more resilient and stable because to the revised financial regulatory norms that were implemented after 2013. But difficulties still exist, and to handle new threats and keep regulatory frameworks functional, constant watchfulness and regulatory adaptation are required.

VI. Summary of findings, suggestions, and conclusion

6.1 Findings:

6.1.1. Before 2013:

- Capital Adequacy Requirements: Despite the necessity for capital adequacy ratios, banks were able to artificially lower their capital requirements through the use of regulatory arbitrage and risk weight manipulation.
- Asset Classification and Provisioning: Banks' asset quality measurements were affected by evergreening and delayed identification of non-performing assets (NPAs), even in spite of regulations requiring these processes.
- Liquidity Management: Despite the existence of liquidity ratios, banks' liquidity balances were at danger due to issues like an overreliance on short-term wholesale finance and regulatory window dressing.
- Risk Management Practices: Although thorough risk management frameworks were mandated, the efficacy of these measures was weakened by flaws in systems and controls, a failure to adjust to changing hazards, and an underestimating of some risks.

- Corporate Governance Standards: The integrity and independence of corporate governance standards were jeopardized by related-party transactions, conflicts of interest, and power consolidation, notwithstanding rules on board supervision and transparency.

6.1.2. After 2013:

- Basel III Implementation: By decreasing systemic risks and improving overall stability, Basel III greatly strengthened the capital adequacy and liquidity positions of Indian banks.
- Asset Quality Review (AQR): AQR improved banks' balance sheet transparency, made it easier to identify stressed assets, and regained investor trust in the banking industry.
- Enhanced Enforcement and Supervision: Tighter enforcement and supervision encouraged adherence, discouraged wrongdoing, and made it easier to intervene early to address new hazards.
- Corporate Governance Reforms: These measures increased accountability and the efficacy of governance by strengthening board supervision, promoting transparency, and reducing conflicts of interest.
- Technological and Digital Innovations: The banking industry has benefited from increased efficiency, accessibility, and customer experiences via the use of digital banking channels, fintech partnerships, and sophisticated analytics. These developments have also helped to promote financial inclusion and innovation.

6.2 Suggestions:

1. Strengthen Regulatory Oversight: Keep an eye on and assess regulatory frameworks on a regular basis to deal with changing risks and gaps in compliance requirements.
2. Strengthen Risk Management: To effectively detect, evaluate, and mitigate risks, invest in strong risk management systems and controls.
3. Encourage openness and Accountability: To gain the confidence and trust of stakeholders, banks should be urged to improve openness in their financial reporting and governance procedures.
4. Accept Technological Advancements: Stress the use of cutting-edge digital tools and creative solutions to boost customer satisfaction, operational effectiveness, and financial inclusion.
5. Encourage a Culture of Compliance: Through education, rewards, and enforcement strategies, encourage a culture of compliance and moral behavior throughout the banking industry.

6.3 Conclusions:

The results highlight how crucial regulatory changes are to mitigating risks and bolstering the financial industry's resilience. Even if regulatory standards and governance procedures have improved significantly, continuous watchfulness and proactive steps are necessary to reduce risks and guarantee the stability and sustainability of the financial sector. It will be essential to embrace technology advancements and foster a compliance culture in order to take advantage of future prospects and navigate the ever-changing financial market.

References

Reserve Bank of India. (2021). Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances. Retrieved from https://www.rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=10041

Master Circular – Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards/Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002 – 2012-13

Master Circular – Basel III Capital Regulations – 2013-14

Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF) – 2012-13

Master Circular - Prudential Norms on Capital Adequacy - Basel I Framework – 2012-13

Master Circular on Customer Service in Banks - 2013-14

Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – 2013-14

Frauds – Classification and Reporting - 2013-14

References

Chakravarty, A. (2016). Financial Inclusion through Fintech: How the RBI Is Shaping Its Role as Regulator. *SSRN*, 21.

Debabrata Sharma, S. K. (2017). Corporate Governance in Indian Banking Sector: A Review of Related Literature. *Indian Journals*, *17*(2), 5.

Dhar, S. (2015). The Changing Role of Reserve Bank of India in Bank Supervision and Corporate Governance with the Introduction of Risk Based Parameters. *SSRN*, 37.

Dick K. Nanto, C. (2010). *The Global Financial Crisis: Analysis and Policy Implications.* Washington: Congressional Research Service.

Dr. Nayantara Padhi, D. K. (2018). CONSTRUCTION OF INDEX TO MEASURECONSTRUCTION OF INDEX TO MEASURE GOVERNANCE ON PERFORMANCE OF INDIAN FINANCIAL INSTITUIONS. *International Journal of Creative Research Thoughts (IJCRT)*, *6*(2), 8.

Geethanjali Natara, A. (2018). Banking Sector Regulation in India: Overview, Challenges and Way Forward. *Indian Journal of Public Administration Geethanjali Natara, Ashwani*, *64*(3), 10.

Hans*, D. M. (2015). BASEL III AND ITS IMPLEMENTATION. *national Journal of Management (IJM), ISSN 0976 – 6502(Print), ISSN 0976 - 6510(*, *6*(5), 7.

Hans, K. (2017). Impact of Basel Norms on Indian Banking System: An Empirical Analysis. *Amity Management Review*, *6*(1), 10.

Kishore, K. (2015). New Capital Framework for Indian Banks: A Critique of Basle III Norms. *Apeejay Business Review*, *14*(1), 42.

Kumar, R. R. (2018). Non-performing Assets in Indian Banking Sector:. *A Journal of Interest Free Microfinance*, *9*(1), 14.

M Kumar, G. Y. (2013). AIMA journal of management & research. *Liquidity Risk Management in Bank: A Conceptual Framework*, 12.

Prashant Kumar Gupta, S. (2023). Role of corporate governance in asset quality of banks: comparison between government-owned and private banks. *Managerial Finance*, *49*(4), 15.

Rameeza Rafi, R. K. (2018). Non-performing Assets in Indian Banking Sector: Current Trends and Causes. *A Journal of Interest Free Microfinance*, *9*(1), 14.

Samad, D. P. (2013). Changing Face of State Bank of India: Strategic Priorities in Maintaining Market Leadership. *IUP Journal of Business Strategy*, *10*(1), 1.

Shah, K. M. (2024). *Anti Money Laundering: Proactive involvement andperception of Internal Auditors in Anti-Money Laundering Compliance Review.* AHMEDABAD: GUJARAT TECHNOLOGICAL UNIVERSITY.

SS Chilukuri, K. R. (2016). An Empirical Analysis on Asset Quality of Indian Banking Industry - Nonperforming Assets to Advances. *Journal of Accounting & Marketing*, *5*(1), 6.

THIRUPATHI KANCHU, M. M. (2013). RISK MANAGEMENT IN BANKING SECTOR -AN EMPIRICAL STUDY. *International Journal of Marketing, Financial Services & Management Research*, *2*(2), 9.

Vagrecha, D. N. (2017). *A Study on Corporate Governance Practices of Indian Financial Sector Companies.* New Delhi: School of Management Studies, Indira Gandhi National Open University (IGNOU).