ANALYSIS OF CAPITAL ADEQUACY OF STATE BANK OF INDIA AND PUNJAB NATIONAL BANK

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ABSTRACT

The SBI and PNB, both are the leading banks of India and has more than 30000 branches to serve the customers. Due to the importance of these two public sector banks, these have been selected for the current study. The past researches revealed that the capital adequacy shall be game changer for the banking industry. The current study followed a descriptive research approach. The Data was collected from secondary sources like RBI publication, Indian bankers association websites, Books, Periodicals, Journals, Research papers, and case–study, Websites, and Newspapers. The one sample t test, multiple regression analysis were used for the current study. The Hypotheses were also developed. It was concluded that the insignificant gap exists between the hypothesized test values with the calculated sample statistics for year wise growth of CAR in PNB. The significant gap exists between the hypothesized test values with the calculated sample statistics for year wise growth of CAR in SBI.

KEYWORDS: SBI, PNB, Capital Adequacy, NPA, Basel norms.

INTRODUCTION

The banks have significant role in the overall development of any economy due to monopoly in controlling the money supply circulation. The banks mobilise the idle capital into some productive uses by implementing the monetary policy. The Indian banks always have challenges which affect them drastically, like change in technology, changes in regulations, default cases, consumer behaviour, unorganised banking schemes etc. From the last many years, entire global banking system has seen significant financial instability. There are many kinds of risks that are being faced by the banks. The banks are inter-related with each other as they have specific obligations to meet with the other banks, if the system collapses the obligations get affected. Therefore, the need was felt for a strong and sound banking system that can help in bank's financial stability so that the banks solvency can be protected. A

system was to be developed that can provide cushion against the losses to be incurred by the banks in future and the risks of banks can be hedged. Then the Basel accords came to regulate the banking system with international standards maintenance. The Non-performing assets affect the banks in many negative ways such as interest, profits, income, reserves etc. For the safety and stability of the banking system at individual country and across the globe, Basel norms were created to keep the trust of the people in the banking system. These norms were adopted by the various countries in the different phases called Basel norms or Basel Accords. These are basically the series of three sequential banking regulation agreements (Basel I, II, and III) set by the Basel Committee on Bank Supervision (BCBS). The Committee provides recommendations on banking and financial regulations, specifically, concerning capital risk, market risk, and operational risk. The accords ensure that financial institutions have enough capital on account to absorb unexpected losses. The main focus was on to capital adequacy so that the banks can be saved from the defaults and NPAs. The State Bank of India and Punjab National Bank, both are the leading banks in our country and has more than 30000 branches to serve the customers. Due to the significance of these two public sector banks, these have been selected for the current study.

REVIEWS OF LITERATURE

- **Tanna, H. (2018)** concluded in the study titled "A Study on impact of Basel II Norms on the performance of Banks in India" about the Basel-II norms implementation in India. This study analyzed the 5 years before and 5 years after the Basel-II phase. It is observed that the performance of banks improved after the Basel-II implementation. The banks are bifurcated into four categories in this study as nationalized, SBI & Associates, Private and Foreign banks. Data analysis is used to check the impact. More positive impact is shown by Foreign and private banks rather than nationalized and SBI & Associates. In the field of risk management and supervision of operations of banking Basel-II norms proved to be noteworthy. After the Basel-II norms the capability of banks improved in the area of productivity and reduced NPA. All these factors lead to strengthen the Banks so that financial crisis can be faced. Proper evaluation of risk and practices of assessment can lead to high Capital Adequacy

Ratio. It is also concluded that the transition of Basel-II norms made banks stronger and results in making strong financial system of India.

- **Parmar, R. (2014)** analysed in the study that the stability of banks is pivotal for the development of an economy. The banks should give much attention to the lending as the funds should be used in efficient way. In the banking industry, the management of Non-Performing Asset is the most typical task for every Bank. The need for management of NPA arises due to their multidimensional effect on the position, performance and working of bank. In this study, non-performing assets of ICICI bank and SBI are analysed. It is founded in the study that both gross and net level of NPAs is on average in the case of upward trend of SBI and in the case of downward trend of ICICI bank for one year but in second year it happens in the case of upward trend. The most crucial problem and barrier faced by banking industry is the non performing assets. The germs of accounts for becoming NPAs are improper processing of loan proposals, wilful defaults, poor monitoring and so on.

- **Siraj, K., & Pillai, P. (2013)** to estimate the relative proficiency of various bank's groups in India in managing credit risk, they employ the growth rate measured using exponential growth equation. Performance indicators are compared with NPS variables for the purpose of comparison. Public sector banks occupy around 75% of total deposits and advances of SCBs in India, so it is well said that the stability of banking sector in India mainly depends on performance of public sector banks. The detected result showed improved efficiency of public sector banks in management of NPA. If compared with other bank groups, gross NPA of Nationalized Banks showed aggressive decay during 2001-11, while the growth of private banks and foreign banks is comparably higher than the NPA of SBI & Associates. Increased provision towards NPA, which grew at an EG rate of 20.41% and 20.92% affected the profitability of foreign banks and private banks to a high level. The major problem for private sector is that the provisions are growing at a rate more than that of lending rate. An alarming signal lending (16.69%) during 2001-2011. with the observed result, it is founded that the stability of Indian banking sector and its resilience to financial crisis is mainly because of the improved performance of public sector banks.

- **Balasubramaniam, C. S. (2012)** Concluded that the banks of India have shown good profitability and performance while the interest rates, operating costs were rising. The banks shown the good return on assets and equities, increased credit growth is also observed. The capital position also improved because banks could mobilize large amount of funds. It is observed that the level of NPAs is high in the banks and banks would decrease the level. If the credit appraisal processes are good NPAs can be decreased. The main challenge for commercial banks is to maintain their profitability in this highly competitive period. NBFCs and foreign banks have challenges in opening banking businesses. These things are important in a time when interest rates are rising along with operating costs. It was seen that the RBI was about to implement the Basel-III norms which would require capital adequacy requirements and it would be needed for banks to mobilize their funds to comply with these provisions. The banks and other financial institutions have different structures according to NPA levels and other factors; hence the requirement of capital would be very large. The current capital market can cause problems for the mobilization of capital for banks. The PSUs in India are dominant banks in Indian financial system, but these banks can face more challenges in successfully implementation of Basel-III norms. It is also noted that new and private sector banks of HDFC and ICICI banks are fully prepared for the implementation of Basel-III norms because these banks have good capital adequacy ratios, increased percentage of equity, good IT infrastructure and well-trained personnel.

RESEARCH METHODOLOGY

After reviewing so many researches on the implementation of BASEL norms or Capital Adequacy in India, it has been observed that that the researchers have highlighted more about the impact of Basel guidelines on the banks internationally. The organised literature is not available for India. The present study followed a descriptive research approach. The descriptive research approach is used to test the hypotheses and present conclusions from data analysis. Data was collected from secondary sources like RBI publication, Indian banker's association websites, Books, Periodicals, Journals, Research papers, and case–study, Websites, and Newspapers. The use of internet was also of great help. The one sample t test, multiple regression analysis were used for the current study. Two Hypotheses were also developed.

Hypotheses development:

H_1=there is no improvement in the capital adequacy ratio of State Bank of India.

H_2=there is no improvement in the capital adequacy ratio of Punjab National Bank.

The Capital Adequacy Ratios of both the banks:

Banks	2014	2015	2016	2017	2018	2019	2020	2021
Punjab National Bank	11.52	12.21	11.28	11.66	9.20	9.73	14.14	14.32
State Bank of India	12.44	12.00	13.12	13.11	12.60	12.72	13.06	13.74

H_1= There is a significant improvement in the capital adequacy ratio of State Bank of India.

To analyse the data and measure this hypothesis the data gathered for all the selected public sector banks are used and the statistical techniques one sample t test is used with SPSS software for this purpose. The result of data analysis is presented as under:

Table-1

One sample t test

One-Sample Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
SBI	8	12.8488	.52735	.18645

One-Sample Test						
	Test Value = 12					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
SBI	4.552	7	.003	.84875	.4079	1.2896

The output of the 'one sample t test' in the table 4.12, reveals that significant gap exists between the hypothesized test value with the calculated sample statistics for year wise growth of CAR in SBI ($p<0.05$) at 5% level of significance. This revealed that the CAR of the bank is above the BASEL-III norms and improved during the period of the study.

H₂= There is a significant improvement in the capital adequacy ratio of Punjab National Bank.

To analyse the data and measure this hypothesis the data gathered for all the selected public sector banks are used and the statistical techniques one sample t test is used with SPSS software for this purpose. The result of data analysis is presented as under:

Table-2

One sample t test

One-Sample Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
PNB	8	11.7575	1.82807	.64632

One-Sample Test						
	Test Value = 12					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
PNB	-.375	7	.719	-.24250	-1.7708	1.2858

The output of the 'one sample t test' in the table 4.11, reveals that insignificant gap exists between the hypothesized test value with the calculated sample statistics for year wise growth of CAR in PNB (p>0.05) at 5% level of significance. This revealed that despite of the CAR of the bank is above the BASEL-III norms (but below 12% standard we set for the study) and improved during the period of the study but it has not significantly improves over the level of 12% level.

CONCLUSIONS

As per the BASEL-III norms of Capital Adequacy Ratio (CAR) should be over 8% of their risk-weighted assets. For a significant improvement we have taken the 12% as base for measuring the CAR in terms of risk-weighted assets. The insignificant gap exists between the hypothesized test value with the calculated sample statistics for year wise growth of CAR in PNB, revealed that despite of the CAR of the bank is above the BASEL-III norms (but below 12% standard we set for the study) and improved during the period of the study but it has not

significantly improves over the level of 12% level. The significant gap exists between the hypothesized test values with the calculated sample statistics for year wise growth of CAR in SBI, revealed that the CAR of the bank is above the BASEL-III norms and improved during the period of the study.

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