

Basel III Standardised Approach

Credit and Operational risk

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On 1 October 2025, RBI, during the Monetary Policy Committee (MPC), has proposed to implement revised Basel III capital adequacy norms for Schedule Commercial Banks (SCBs excluding small finance banks, payment banks and regional rural banks) effective from 1 April 2027.

While the capital requirement for market risk are under

finalisation, the RBI has issued a draft 'Reserve Bank of India (Scheduled Commercial Banks - Capital Charge for Credit Risk – Standardised Approach) Directions, 2025' for Credit Risk Standardised Approach (CR SA) on 7 October 2025. The capital requirements under Standardised Approach (SA) for operational risk were released by RBI on 26 June 2023.

The key changes introduced in the draft directions under SA approach for credit risk as released on 7 October 2025, are given below:

Key select changes under CR SA

Exposure to banks

- Standardised Credit Risk Assessment Approach (SCRA) for unrated exposures with introduction of Risk Weights (RW) for SCRA grades and due diligence requirements for rated exposures
- Recalibration of risk weights for rated exposures and introduction of only a rating-based approach for domestic banks.

Off balance sheet exposures

- Made more risk sensitive by modifying the Credit Conversion Factor (CCF) and removal of maturity based CCF for other commitments
- 10 per cent CCF on Unconditionally Cancellable Commitments (UCC).

Exposure to corporates

- Introduction of differential risk weights for new MSMEs sub-asset class
- Enhanced due diligence requirements for externally rated exposures.

Retail exposures

- Application of a more granular treatment for different retail exposures
- Segregation between revolvers and transactors with lower RW for transactors.

Exposures secured by Commercial Real Estate (CRE)

- Introduction of more risk-sensitive methods for RW for exposures secured by commercial real estate
- Different risk weights based on whether repayment dependent on cashflows from economic activity or repayment from underlying property.

Exposures secured by Residential Real Estate (RRE)

- Increased risk sensitivity by aligning category of RW based on LTVs, number of live loans and amount
- Differential risk weights for certain class of RRE with repayment from economic activities and repayment from underlying property.

Subordinated debt and equity

- Application of more granular risk weights for exposures to subordinated debt and equity
- Separate RW for equity exposure and speculative unlisted equity.

Other exposures

- 0 per cent RW for Multilateral Development Bank (MDB) which fulfill Basel committee's criteria. Other MDBs to be assigned RW basis their credit ratings
- Specific RW for specialised lending (project finance, object finance and commodities finance). Differential RW for project finance based on operational phase and quality.



Key requirements under operational risk capital – new Standardised Approach (SA):

Under the 'Reserve Bank of India – Master Direction on Minimum Capital Requirements for Operational Risk' issued on 26 June 2023, RBI, in line with Basel III requirements, proposed a new Standardised Approach (SA) replacing all the existing approaches.

Business Indicator Component

- The BI (Business Indicator) is the sum of three components: Interests, Lease and Dividend Components (ILDC); Services Component (SC); and Financial Component (FC);
- BI to be computed based on 3-year averages for the constituents of the individual components.

$$BIC = \sum \alpha_i BI_i$$

Where α_i is marginal coefficient

Marginal coefficient (alpha)

- α_i is a set of marginal coefficient that is multiplied by the BI according to 3 buckets (i = 1, 2, 3):
- Bucket 1 – BI size of up to INR8,000 crore, alpha will be 12 per cent
- Bucket 2 – BI size more than INR8,000 crore and up to INR2,40,000 crore, alpha will be 15 per cent.
- Bucket 3 – BI size of more than INR2,40,000 crore, alpha will be 18 per cent.

Internal Loss Multiplier (ILM)

- ILM is a function of BIC and Loss Component (LC). LC is equivalent to 15 times average annual operational risk losses in last 10 years
- For banks which do not have 10 years of high-quality data but have five years of high-quality data can compute LC using the five years data.

$$ILM = Ln(\exp(1) - 1 + \left(\frac{\text{Loss Component}}{\text{BI Component}}\right)^{0.8})$$

Operational risk capital

- Operational Risk Capital (ORC) is arrived at by multiplying the Business Indicator Component (BIC) and the Internal Loss Multiplier (ILM)
- For banks in Bucket 1 and which do not have five years of high-quality operational risk annual loss data, ORC = BIC
- Specific regulatory discretion retained depending on the BI bucket of the bank.

KPMG in India service offerings for Basel implementation

KPMG in India Offerings

Impact assessment

- Carry out qualitative and quantitative impact analysis of the new requirements as compared to existing regulations
- Develop a transformation roadmap for the implementation of the new guideline.



Ongoing support

- Conduct knowledge transfer and training based on leading practices
- Review Basel capital computation on an ongoing basis
- Assist the bank in ongoing computation and reporting under Basel.



Third party system implementation

- Assist in migration to new Basel requirements from development of user requirements, functional/technical design, system selection and implementation, project management and user acceptance testing for any third-party solutions.



Functional implementation

- Policy interpretations and development of methodologies/decision points
- Development of adaptation programs to new standard methods along with policy, process, governance and controls
- Develop be-spoke calculators for Basel III capital computation and reporting.



Implementation review

- Review bank's implementation of the new Basel requirements in line with the regulatory and market practices
- Provide recommendations on improvement areas and assist in required enhancements.



KPMG in India in house tool

- Implementation of our proprietary inhouse python based customisable solution for implementing the RBI requirements under standardised approach for credit risk and operational risk.



KPMG in India - in house tool for Basel capital computation – Salient features

	Customisable dashboarding layer with ability to create dashboards for internal MIS or reporting requirements
	Regulatory reporting automated as per client and regulatory requirement
	Assessment of data quality and data gaps for computation of capital requirements
	Tool is built on open-source technologies providing complete scalability and flexibility
	Work-flow for computation of Capital Adequacy Ratio (CAR) based on Basel III revised guidelines
	Option to integrate with in-house Internal Capital Adequacy Assessment Process (ICAAP) module for computation of Pillar II capital requirements
	Capital calculation based on standardised approach for credit risk, market, and operational risk
	Stress testing, capital planning and optimisation options for the bank.

Our Team and Expertise

Experience of successfully delivering Basel implementation projects across credit, market, operational and Pillar II risks across local and global banks including DSIBs and AIFIs.

400+ multidisciplinary team comprising of Chartered Accountant, MBA, FRM, CFA, COF, Statisticians, Econometricians, Actuaries, Ex-bankers and Risk Specialists.

Multiple awards such as 'Best Credit Modelling Team of the Year', 'Central Banking Award' for risk management services, and in-house solution is ranked 37 by Chartis globally in providing risk technology solution.

Top talent covering kaleidoscope of professionals from leading professional services firms, top management institutes and premier colleges.

Extensive knowledge base regarding regulatory expectations on account of working experience in different geographies with relevant stakeholders.

KPMG in India has experience working with **multiple central banks and MDBs** across geographies.

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