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Editorial

I am happy to present the April - June 2023 (Vol. LII, No. I) issue of Prajnan. In this issue, we offer three full length papers and one brief article. The topics range from a survey of digital lending platforms and stability of co-operative banks to 80C deduction problems and impact of zinc futures markets.

The first paper, by K.M. Neelima, Rajnish Kumar Chandra and Brijesh P., is titled **Transformation to Digital Economy: Findings from a Survey on Peer-to-Peer (P2P) Lending Platforms in India**. In a country with a sizeable unbanked segment, innovative lending practices are essential for greater credit outreach to the informal sector. A P2P lending platform provides such a forum for mutually beneficial digital interaction between lenders and borrowers. It reduces transaction costs, collateral and documentation requirements. From a survey-based study of 14 NBFC P2P platforms (which covers 92 percent of P2P loan assets in India between 2019 and 2022), the authors derive some important results. The volume of loans and the number of lenders and borrowers exhibit a steady rise during this period. Loans are given by educated men in urban areas to small scale businesses. Asset quality has also improved during this phase. With appropriate policy support, this channel can provide a vital link between lenders and small borrowers.

The second paper is titled **Stability of Cooperative Banks in Kerala, India: A Comparative Study of Banks across Ownership Structures**. Cooperative Banks are perceived as reliable conduits to accelerate financial inclusion in India. The authors, Hasna Muhamed Ashraf and Anup Kumar Bhandari, compare the stability of cooperative banks with that of public and private sector banks in Kerala. They find that, despite lower asset returns and capital adequacy ratios, cooperative banks are the most stable since the returns are least volatile. The regression models suggest that loan-asset ratio has a positive influence on stability while Credit-Deposit ratio and inflation have adverse effects. The recent merger of Cooperative banks in Kerala has to be studied in the light of an observed inverse relationship between size and stability.

The third paper, **Answering 80C Deduction Riddles**, is authored by Rajat Deb, Ragubir Sahu, Mukesh Nepal and Anita Behra. They conduct an empirical analysis based on a stratified random sample of 150 respondents. They infer that demographic factors like age, marital status, gender, education level and income, along with tax deduction schemes, augment savings while tax compliance is enhanced with tax deductions and tax literacy. The analysis may be used to design tax saving instruments targeted at specific cohorts like married couples or young, educated and high income groups.

The brief article, **Influential Direction of Price Discovery and Hedging Effectiveness of Zinc Futures: Empirical Evidence from India**, examines the direction of influence spot and futures prices of zinc, in India. The author, Laxmidhar Samal, conducts a Granger causality test, to assess the direction of price discovery. The results indicate that, in the short run, the futures market influences price discovery in the spot market for zinc. The converse is true, in the long run. The hedge ratio is also too low for the offset between spot and futures markets to be considered effective.

We invite original research articles in all areas of banking and finance. Please submit you papers, comments and suggestions to editor_prajnan@nibmindia.org

With warm regards,

Dr Sanjay Basu
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Transformation to Digital Economy: Findings from a Survey on Peer-to-Peer (P2P) Lending Platforms in India

**K M Neelima
Rajnish Kumar Chandra
Brijesh P**

The advent of smart phones and reduction in internet data costs boosted the operations of NBFC-P2P platforms in India; COVID-19 gave further impetus. To study this segment in a comprehensive manner, a survey was conducted in 2022 among NBFC-P2Ps registered with the Reserve Bank. Our survey shows that the overall lending as well as the number of borrowers and lenders have steadily increased among these platforms. Lending is mainly undertaken by educated men in urban areas for investments in small scale businesses. Though interest rates charged are high, these are expected to come down as the segment matures. Asset quality of the sector, though elevated, has significantly improved in recent times. With careful nurturing and appropriate policy support, this sector can significantly contribute towards building a vital link between investors and small-scale borrowers.

(The views expressed in this article are those of the authors and do not represent the views of the Reserve Bank of India.)

Stability of Cooperative Banks in Kerala, India: A Comparative Study of Banks across Ownership Structures

**Hasna Muhamed Ashraf
Anup Kumar Bhandari**

With the unique ownership structure, mode of functioning and dual-bottom lined nature, cooperative banks have been singled out by the Government to play a major role to reach its goal towards more financial inclusion. This is even more prominent in Kerala where the State Government recently formed the Kerala Cooperative Bank (KCB), merging the two upper tiers of the erstwhile three-tier cooperative banking system. The KCB is expected to take up the position of the apex bank in the State. Given this backdrop, we examine their stability vis-à-vis the other banks in Kerala during 2006 through 2016 and observe that cooperative banks are more stable than the (a) commercial banks as a whole; and (b) each of its groups under private and public ownerships. Relatively lower returns and capitalization of the cooperative banks are offset by its low volatility of returns to make it more stable. It is too early to comment on, however, this merger may make it more vulnerable, since we observe negative correlation between size of a bank and its stability. Among others, loan to asset ratio is observed to have a positive relation with stability, whereas credit-deposit ratio and inflation are observed to be negatively related with its stability.

Answering 80C Deduction Riddles

**Rajat Deb
Ragubir Sahu**

Mukesh Nepal
Anita Behra

Indian Income Tax Act, 1961, in Chapter VI-A, has provided different sections 80A-80U under which deductions have been allowed while computing gross total income. Section 80C has been amended from time to time under the Finance Act and currently provides tax benefits to the tune of INR 150000 for the assessment year 2022-23. Albeit section 80C of the Indian Income Tax Act offers an array of saving instruments popular among taxpayers, the current study has motivated to assay the less popular instruments. Following a cross-sectional research design and a stratified random sampling technique, 150 sample respondents were selected. Statistical results have indicated that particular demographics and tax deductions have influenced saving decisions, while tax deductions and tax literacy have influenced tax compliance. Moreover, it has acknowledged limitations, indicated policy formulation, and sketched a future research roadmap.

A Brief Article

Influential Direction of Price Discovery and Hedging Effectiveness of Zinc Futures: Empirical Evidence from India

Laxmidhar Samal

The paper is an attempt to evaluate the direction of price discovery and hedging effectiveness of zinc futures traded at MCX, India. The period for the study is chosen for seven years, i.e., 2013 to 2020. The influential direction between the spot and futures for price discovery has remained an important phenomenon in commodity futures research. The results confirm that there exists unidirectional causality between the spot and futures market of zinc. In the long-run spot influences futures for price discovery and conversely, the futures market influences price discovery of the spot in the short run. The zinc futures market also indicate a lack of hedging effectiveness. As the results are based on only one base metal and the period is limited to seven years, it can be extended and expanded for further research. Moreover, future research can evaluate the cross-hedging strategies of the zinc futures market.