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## **Editorial**

I am glad to release the April-June 2021 issue of PRAJNAN (Volume XLX, No. 1), the Journal of Social and Management Sciences. I sincerely thank our readers, authors, referees, editorial committee and editorial board members their continued support and guidance. I take this opportunity to welcome our Director, **Dr Partha Ray**, distinguished academician and economist, for joining the editorial board of PRAJNAN. This journal is a place for exchanging original research based results on banking and finance and other areas of Social & Management Sciences that have relevance in building a new body of knowledge and improvement in practice of banking operations. As you are aware, PRAJNAN – The Journal of Social and Management Sciences is a quarterly double blind refereed journal of social and management sciences with special reference to banking and finance. Started in the year 1972, the journal focuses on publishing original research papers that have high academic and professional standards to the readers and our endeavour will continue.

The rigorous double blind peer-review process and the thorough care taken in copyediting and production by our team ensure the journal's place as a premier venue for scholarly publishing in the area of banking and finance in India. The journal is indexed and abstracted in EBSCO, ProQuest and Indian Citation Index. PRAJAN is now listed in UGC Care list.

In this issue we present four full length research papers and two book reviews.

The first paper "**Mobilization and Management of Capital by Primary (Urban) Cooperative Banks in India**", is by Ashish Srivastava, Ashutosh Upadhyay and Nitu Saxena. The paper analyses various aspects of mobilization and management of capital by UCBs. The article contains an analysis of the mobilization, management, and redemption of capital by UCBs in India using a sample study along with an assessment of a possible impact of the application of the capital charge for market risk and operational risk on the position of capital adequacy of UCBs in India. The authors have carried out a sample survey study of 50 Tier II UCBs relating to the topic and presents the findings. The analysis primarily focuses upon three key areas relating to the capital structure of UCBs, namely, composition of capital, management of capital, and redemption of capital. The authors have provided various suggestions that may help UCBs in better management of capital and can enhance the stability of co-operative banking in India.

In the second paper, "**Performance Evaluation and Comparative Analysis of Selected Public and Private Sector Banks in India using Balanced Scorecard**", Rajesh Wasudeorao Raut and Atmaja Vinay Sahasrabuddhe study comparative performance of selected private and public sector banks in India using Balanced Scorecard (BSC) framework. This approach tends to reflect the need of a balance between traditional financial measures and other non-financial elements such as customers, internal business process, learning and growth. The study uses data of top five public sector banks (PSBs) and private sector banks (PVSBS) based on their asset size. It considers financial as well as learning, growth and customer orientation factors and evaluate performance over five years 2014-2018. The analysis reveals that only net interest margin and learning and growth parameter of BSC is correlated to Return On Assets (ROA). The authors suggest that public sector banks need to have strict policies for loan recovery considering their rising NPAs with a diligent approach towards implementation.

In the third paper, "**Does Finance Promote Innovation? An Empirical Analysis for OECD Countries**", Tamal Nath, Rudra P Pradhan, Rana P Maradana and Siddhartha Barman explore the causal relationship between innovation and financial support for innovation. The questions asked are whether finance drives innovation (supply driven) or finance follows innovation (demand driven). The data used for the empirical work is of 36 OECD countries and the time period is 1961 to 2019. The authors have shortlisted seven variables to represent innovation and thirteen variables to represent finance. Two index variables were constructed to represent innovation and finance as weighted average of the constituent variables, weight arrived through principal components analysis. Next, it studies the causal relationship (both for short-term and long-term) between innovation and finance in two scenarios deploying Vector Error Correction (VECM) model. Scenario I studies causal relationship between finance index and each one of the seven innovation variables and also the index of innovation. Similarly, Scenario II studies the causal relationship between innovation index and each one of the finance variables and also the finance index variable. Granger causality methodology has been used for this purpose. The study finds a two-way causal relationship depending on the country and the variables are deployed. Authors argue that country specific characteristics may play an important role in nurturing this relationship. The study concludes that the policymakers must design resilient and effective macro-economic policies to boost finance in their territory. Moreover, the government in these countries should be very supportive to boost innovation by offering various kinds of direct and indirect support programmes, containing grants, loans, tax-reductions, and tax-incentives.

The fourth paper "**Compliance Risk Management in Indian Banks: Analysis of Regulatory Actions**", by T P Ghosh analyses regulatory actions on account of non-compliances by the bank resulting in fraud. The author has made an attempt to present the role and importance of compliance function in banks in India. The article discussions are based on the guidelines on compliance function by BCBS as well as by RBI, need for such regulations and presents indicative instances of non-compliance leading to penalties. Further, the article assesses various cases on which penalties are levied, investigates their causes and finally concluding with the views on improving the compliance culture and impact of guidelines on appointment of Chief Compliance Officer (CCO). The paper noticeably points out the non-compliance with regulatory directives for SWIFT related operational controls and NPAs divergence resulted in more losses in banks. This study reveals weak compliance risk management of banks and importance of enforcement of the RBI regulations which are developed based on best practices in the respective areas as preventive measures. The paper stresses the need for keeping a good compliance culture within the organization that could effectively reduce the losses in banks.

In this issue, we have published two book reviews by Dr N K Jain, former Chief General Manager, NABARD and Shri B V Chaubal, former Deputy Managing Director, State Bank of India. Dr N K Jain reviews the book *Management by Consciousness: A Spirituo-Technical Approach* by Dr G P Gupta, published by Sri Aurobindo Society. Shri B V Chaubal reviews the book *Class and Conflict – Revisiting Pranab Bardhan's Political Economy of India* by Elizabeth Chatterjee and Matthew McCartney, published by Oxford University Press.

I look forward to your active participation and cooperation. We invite new submissions that include topics related to banking and finance and social and management sciences for our forthcoming issues.

**Dr Arindam Bandyopadhyay**

*Editor (PRAJNAN), Associate Professor, Dean Education, Associate Dean (Consultancy), NIBM.*

## **Mobilization and Management of Capital by Primary (Urban) Cooperative Banks in India**

Ashish Srivastava  
Ashutosh Upadhyay  
Nitu Saxena

The key principles of co-operation, namely open membership, democratic control, equal voting rights, not-for-profit orientation, localised operations, and personalised services contribute to the strength of cooperative financial institutions. However, mobilisation and management of capital in cooperatives remain a challenge chiefly on account of two reasons, namely, lack of market access, and the refundable nature of cooperative capital. This is far more challenging for cooperative banks which are subject to capital adequacy regulations under the Basel norms. Amendments to the Banking Regulation Act of 1949 in India, promulgated in the year 2020 have opened new opportunities for streamlining mobilisation and management of capital of cooperative banks. This paper examines key aspects of the composition and management of the capital by the Primary (Urban) Cooperative Banks (UCBs) in India in juxtaposition to the financial cooperatives across the globe and suggests a way forward for improving the quality, consistency, and management of capital by UCBs in India.

## **Performance Evaluation and Comparative Analysis of Selected Public and Private Sector Banks in India Using Balanced Scorecard**

Rajesh Wasudeorao Raut  
Atmaja Vinay Sahasrabuddhe

This paper has used a Balanced Scorecard (BSC) framework developed by Robert Kaplan and David Norton in 1992 to evaluate the performance of the banking sector in India. Top five public sector banks (PSBs) and private sector banks (PVSBS) based on their asset size were selected for the study. The study has identified 12 critical variables in BSC to compare the performance of PSBs and PVSBS. This comprehensive study also examines the relationship between Return On Assets (ROA) and Return On Equity (ROE) and the 12 variables identified for the four perspectives. The study has observed that there is a significant difference in the performance of PSBs and PVSBS. Interestingly, we have observed that out of 12 variables, only Net Interest Margin and number of branches are correlated to ROA while not a single variable amongst 12 variables is correlated to ROE.

## **Does Finance Promote Innovation? An Empirical Analysis for OECD Countries**

*Tamal Nath  
Rudra P Pradhan  
Rana P Maradana  
Siddhartha Barman*

The roles played by the financial markets development in innovation is well established in the literature. In this paper, we study the interface between finance and innovation to establish whether there is temporal causality between these two variables. We deploy three sets of financial markets indicators and the Granger causality method to examine the nexus between finance and innovation. Our analysis of 36 OECD countries between 1961 and 2019 finds a grid of short-run and long-run causal relationships between finance and innovation, including long-run one-way causality from finance to innovation, and vice versa. A striking feature is the failure of having any constancy, both in the long-run and short-run. We suspect country specific characteristics may play an important role in nurturing the relationship between innovation and finance.

## **Compliance Risk Management in Indian Banks: Analysis of Regulatory Actions**

T P Ghosh

Compliance risk issues of banks in India as reflected in the regulatory actions encompass non-compliance with regulatory directives relating to fraud risk management, cyber security framework, SWIFT related operational control, asset classification and provisioning, and anti-money laundering standards. Based on data of monetary penalties imposed by the Reserve Bank of India, and banks' disclosures of divergence in reporting of non-performing assets and resultant over-statement of profit, this paper analyses causes of compliance failure and preventive measures adopted by the banking regulator. It has been observed that occurrence of many severe loss events are directly linked to non-compliance with various regulations issued by the Reserve Bank of India. This paper also explores significance of recent decision to engage independent chief compliance officer at regulated banks to resolve the complex non-compliance syndrome.

*Book Reviews*

**Management by Consciousness: A Spirituo-Technical Approach**

**G P Gupta**

Sri Aurobindo Society, 1998, pp. 202, Rs. 499.

*Reviewed by* **Dr N K Jain**, Former Chief General Manager, NABARD.

**Class and Conflict – Revisiting Pranab Bardhan's Political Economy of India**

**Elizabeth Chatterjee**  
**Matthew McCartney**

New Delhi, Oxford University Press, 2020, pp. x + 299, Rs. 1395.

*Reviewed by* **Shri B V Chaubal**, Former Visiting Professor, National Institute of Bank Management, Pune and Former Deputy Managing Director, State Bank of India.