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Editorial

I am pleased to release the July-September 2021 issue of PRAJNAN (Volume XLX, No. 2), the Journal of Social and Management Sciences. 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. PRAJNAN is a quarterly double blind refereed journal of social and management sciences with special reference to banking and finance. Established in 1972, the journal focuses on publishing original research papers that have high academic and professional standards to the readers and our endeavor 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 also UGC Care approved journal.

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

The first paper **"Dynamics of Off-Balance Sheet Exposures: Signals from Banks in India"** is by Suvendu Sarkar. This paper examines off balance sheet activities of Indian banks and explores determinants of risk appetite for Off Balance Sheet exposures of banks. Equivalent off balance sheet exposures of banks using Credit Conversion Factor (CCF) and compared income form it across different groups. The paper uses more detailed/accurate information on contingent liabilities from off-site supervisory data, collected by the RBI. The study adopts determinants analysis under panel data analysis framework. The author finds that foreign banks are taking much higher risk compared to public and private sector banks in terms of non-funded exposure, though, the income generated from it seems not so significant for them. The paper focuses on income generating capacity of contingent liabilities, credit conversion factors and related capital requirements at various bank-group level. The study finds that key banking ratios like CRAR, NNPA Ratio and size of banks are significant determinants for the contingent liability of the banks.

In the second paper, "**A Comparative Assessment of Cost Income Ratio of Scheduled Urban Cooperative Banks in India: Benchmarking the Operational Efficiency**", Ajit Kumar and Ashish Srivastava evaluate the operation efficiency of Urban Cooperative Banks (UCBs). Their paper addresses how the dynamics of cost factors (e.g. Cost to Income Ratio) moves in tandem with business variables such as Gross Non Performing (GNPA) ratios, Credit to deposit ratio and its asset base. The study uses Kruskal-Wallis test to analyze the impact of, GNPA, Net Interest Income (NII) the 'other assets to total assets' of UCBs by grouping them into different asset size of banks. The findings of the study provide insights that can enable benchmarking the Cost to Income Ratio (CIR) working as a policy guide for bigger urban cooperative banks. The research study of CIR for UCBs ultimately leads to benchmarking and monitoring of costs that can improve the sensitivity towards controlling costs at various levels of management. The study can provide a proven guidance to the boards of UCBs as it has made a detailed comparison with public sector and private banks thereby integrates it with broad spectrum of banking industry.

In the third paper, "**Diversification of Banking Business through Sale of Third Party Products – Progress and Policies**", Manas Ranjan Das explores the concept of cross selling through third party as income diversification strategy and compare performance of different group of entities. The author has collated data to show that New Private Banks (NPBs) are doing better *vis-à-vis* Public Sector Banks (PSBs) and Old Private Banks (OPBs). The author has done trend analysis of banking groups for a decade from 2010-11 which provides many insightful observations. The paper suggests that there is a lot of scope for banks to earn other income provided right kind of policies and actions are pursued and top management level that motivate staff at ground level. Banks can diversify their business *via* sale of third party products such as insurance and mutual funds and can protect their fall in Net Interest Margin (NIM).

The fourth paper "**Corporate Governance in Financial Sector – Deficiencies and Solutions"**, by K Srinivasa Rao explores non implementation of corporate governance at board level in financial entities and laxity observed at various stages and for various reason in dilution of Corporate Governance (CG). The article brings out the evolution of corporate governance practices in India along with global perspective particularly CG guidelines issued by Basel Committee. The article has quoted example of Infrastructure Leasing & Financial Services (IL&FS), Yes Bank, Lakshmi Vilas Bank (LVB) and Punjab and Maharashtra Co-operative (PMC) Bank and analyzed the causes for such deterioration in the health of these financial entities. The author has also attempted to analyze the reasons for such flouting of CG rules by corporates and has tried to emphasize on the role of independent directors. The article concludes by giving eleven important suggestions for improvement of corporate governance in financial entities.

Dr Santosh Kumar, Assistant Professor in Economics, Shri Ram College of Commerce, University of Delhi, reviews the book *Overdraft: Saving the Indian Saver*, written by Dr Urjit R Patel, former Governor, RBI, published by Harper Business.

Dr Asish Saha, Professor, FLAME University and former Director, NIBM reviews the book *Transformational Leadership in Banking: Challenges of Governance, Leadership and HR in a Digital and Disruptive World* edited by Dr. Anil K Khandelwal, former Chairman, Bank of Baroda, published by Sage.

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.

Dynamics of Off-Balance Sheet Exposures: Signals from Banks in India

Suvendu Sarkar

Off-Balance sheet activity refers to the various fee/commission based activities of banks which do not have any direct impact on the bank's balance sheet. These activities include derivatives, guarantees, endorsements, etc., which constitute a supplementary source of income for the banks. However, these exposures do come with certain boundaries in terms of regulatory capital requirements. This study focuses on income generating capacity of these contingent liabilities, credit conversion factors and related capital requirements at various bank-group level. It also tries to find out the determinants of the risk appetite for OBS exposure of banks. One of the major finding of this study was that foreign banks are taking much higher risk compared to public and private sector banks in terms of non-funded exposure, though, the income generated from it seems, not so significant for them. CRAR, NNPA Ratio and Size of Banks are significant factors determining the contingent liability of the banks.

A Comparative Assessment of Cost Income Ratio of Scheduled Urban Cooperative Banks in India: Benchmarking the Operational Efficiency

Ajit Kumar
Ashish Srivastava

In a highly competitive environment, operational efficiency is an important factor for the survival of any organisation and banks are no exception. A comparative assessment of Cost Income Ratio (CIR) shows that the behaviour of CIR and its relationships with other vital financial parameters of scheduled Urban Cooperative Banks (UCBs) in India is different from that of the commercial banks. Unlike commercial banks, Gross Non-performing Assets (GNPA) and the proportion of assets other than investments and advances to the total assets show a significant positive correlation with the CIR in case of scheduled UCBs, and hence, these impact their operating efficiency. In contrast to commercial banks, scheduled UCBs have higher wage CIR than non-wage CIR. While their wage CIR is negatively correlated with asset size, non-wage CIR is found positively correlated with asset size. Scheduled UCBs in the asset class of Rs 5000 crores to Rs 10000 crores (100 crores = 1 billion) show better cost-efficiency. Optimization of asset size emerges as an important aspect of economies of scale and cost-efficiency for these banks. We find that a suitable benchmark for CIR of scheduled UCBs lies in the range of 0.45 to 0.55, which requires an average improvement of about 25 per cent from its present level.

Diversification of Banking Business through Sale of Third Party Products – Progress and Policies

Manas R Das

Diversification of banking business *via* sale of third party products such as insurance and mutual funds is known as cross-selling. Sluggishness in interest income and the consequent shrinkage in NIM, innovations in information and communication technologies, and availability of advanced techno-financial solutions are the prime movers of cross-selling. Cross-selling by the Indian banks is, by and large, an unexplored area. This paper studies the trend and pattern of cross-selling income bank group-wise as well as activity-wise over the 2010-11 to 2019-20 decade. The goal of the study is to arrive at actionable policies for banks, especially PSBs, to enhance their cross-selling activities and income. The author has constructed his own database for the purpose of this paper. In a word, the main finding is NPBs are 'achievers', PSBs 'aspirers' and OPBs 'laggards' in cross-selling. The key to increasing cross-selling income is 'comprehensive' Customer Relationship Management, backed by complete avoidance of mis-selling.

Corporate Governance in Financial Sector –Deficiencies and Solutions

K Srinivasa Rao

Financial sector witnessed downfall of several of its key Financial Entities (FEs), more importantly in last five years causing mayhem in financial markets with its huge and diverse collateral damage to the stakeholders. Analysis of select recent case studies of failure of FEs clearly points out marked deficiencies in implementing Corporate Governance (CG).

This article is an attempt to find out what went wrong in some of the key financial sector failures notably – IL & FS, Lakshmi Vilas Bank (LVB), PMC Bank and Yes Bank. Using these events as case studies, fault lines in implementing CG are identified to enable up-graded policy interventions to curb such devastating trend. Setting right CG is essential to strengthen FEs that will have a more strategic role in taking India to the next trajectory of growth on its way to reach US $ 10 trillion economy by 2030.

Book Reviews

Overdraft: Saving the Indian Saver

Urjit Patel

Noida, Uttar Pradesh, Harper Business, pp 195, Rs. 599 (Hard Cover)

Reviewed by **Dr Santosh Kumar**, Associate Professor in Economics, Shri Ram College of Commerce, University of Delhi, Delhi, India.

Transformational Leadership in Banking: Challenges of Governance, Leadership and HR in a Digital and Disruptive World

Anil K Khandelwal

New Delhi, SAGE Publications India Pvt Ltd; First edition (25 February 2021), pp 524, Rs. 752 (Hard Cover)

Reviewed by **Dr Asish Saha**, Professor, FLAME University and Former Director, NIBM.