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Efficiency of MFIs in India during the Crisis Years: A Data Envelopment Analysis Approach

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Indian microfinance sector has gone through ups and downs since its inception. From late 90s to 2005, the growth was phenomenal. But the Krishna crisis, Kolar crisis and finally the Andhra Pradesh crisis in consecutive years impacted the sector immensely deciding the future path it would traverse. There were significant changes in regulatory framework after these turbulent years. In this paper we attempt to examine the technical efficiency of different types of MFIs during 2008-09 to 2010-11, 2009 being the year of Andhra Crisis. The study shows that majority of the MFIs were operating below the efficient frontier. Inefficiency slightly increased during 2009-10 but significantly reduced in the subsequent year. It is seen that NGOs were dominating the NBFIs in terms of efficient units. Among the NGOs the matured ones were more efficient than NBFIs. Further random effect Tobit model shows that capital structure of MFIs is a significant determinant for overall technical efficiency. But efficiency of NGOs are more sensitive to changes in financial expense-asset ratio than NBFIs.

Determinants of Non-Performing Loans in India: A System GMM Panel Approach

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The objective of the resent study is to investigate the determinants of Non-Performing Loans (NPLs) of the Indian banking system for the period 2000-01 to 2015-16. This study utilized the system-GMM panel estimation method. This method reduces finite sample bias and any other imprecision by regressing levels and changes in NPLs of its lags and other explanatory variables using lagged levels as instruments. The major findings of the study are as follows; (a) among macroeconomic variables; economic growth, stock market index and market capitalization ratio have negative impact on the Gross NPLs ratio, whereas, expansionary fiscal policy escalates the Gross NPL ratio. (b) Corporate specific variables; net sales growth (SLGC) and net profit margin (NPMC) have statistically negative impact on the Gross NPL ratio. (c.) Bank specific variables; higher credit deposit ratio, growth in bank branches, higher return on equity and higher CRAR will lower Gross NPL ratio. Higher operating

expense ratio has significant positive impact on the NPLs, which is indicative of inefficiency of the banks. By examining the impact of corporate specific variables (e.g., SLGC and NPMC) on NPLs in India, the study has established a link between the balance sheet of banks and corporate sectors for the first time. It is established that strengthening the balance sheet of private corporate sectors will strengthen the balance sheet of banks by lowering the NPLs. Therefore, it resolves the twin balance sheet problem in India.

A Comparative Analysis of Loan Recovery Strategy of Indian Banks

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In the aftermath of the Global Financial Crisis of 2008, the Non-Performing Assets (NPAs) of Indian banks grappled with unprecedented heights with striking deterioration in banks' asset quality. The asset quality performances of various bank groups, however, register discernible divergences, with bulk of the problem skewed towards the Public Sector Banks (PSBs). Empirical evidence hints at inadequate appraisal and lax monitoring by the Indian banks leading to asset quality impairments. The need of the study arises mainly because there is evidence that some bank groups have been better in dealing with the challenge of rising NPAs compared to others. The study, therefore, compares the loan recovery strategy of various bank groups in Indian banking sector using the McKinsey 7S model as a qualitative, analytical-comparative tool. The study concludes that the private sector banks in India employ loan recovery strategy which has resulted in significant lower NPAs (for the period 2005-2017) compared to State Bank of India (SBI) and Associates, PSBs and foreign banks operating in India.

Dynamic Capital Adequacy Ratio for Bringing Equilibrium in Lending in the Banking Industry: A Study of the Five Largest Banks in India

Akash Baruah

The problem of Non-Performing Assets in banks have always been a concern, mainly because of the far reaching impact that banks have on the economy as a whole. There has always been a trade off in banks in terms of tighter regulation and higher risk taking. Arguments have been made in the past that banks tend to make riskier loans with tighter regulations. But it can be noticed that not all banks are efficient of the same degree and thus not all banks should be regulated on the same scale. This paper does a study of the five largest Indian banks and comes to the conclusion that the capital adequacy ratio is incapable of reducing risks in banks in terms of growing NPAs. Data suggests that non-performing assets continued to rise regardless of the banks maintaining high capital adequacy ratios. In the paper, we develop a ratio termed as the Marginal Cost of Lending and compare it across banks

to find out that not all banks are similarly efficient. Thus having the same capital requirement does not incentivize banks to perform better neither does it penalize them. This led to the formulation of a dynamic capital adequacy ratio, by taking into account the Marginal Cost of Lending, which will reflect the inherent risks of banks. The purpose of the study is to create a self-correcting mechanism which prevents low quality lending and help reduce the problem of NPAs. Traditionally a higher capital ratio reflected the safety of the banks in terms of its loss absorbing capacity, but a higher dynamic capital ratio will reflect its inherent risks.

Book Review

Connected or Disconnected –
The Art of Operating in Connected World

Micke Damrmell
Kapil Rampal

New Delhi, Sage Publications India Pvt. Ltd., 2018, xvii + 158 pp., Rs. 395.00.

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