

# Asset Securitisation : A Contemporary Practice in Banking Sector- An Empirical Study in Banks of India

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## Abstract

The present study provides an uncommon contribution to the study by involving an amalgam of both the primary and secondary research. The primary research analyzed the current practices and scenario of the process of Securitisation in banks through a structured questionnaire, whereas, secondary research was a panel data analysis for 12 years from 2008-2019 to foresee the operational and financial aspects of securitisation. The sample for both the analysis was selected on the basis of a particular criteria, making a total of 56 and 42 banks being part of primary & secondary research. Primary part of study concluded that 78.57% of the banks use the process of securitisation in India, making maximum use of automobile loans and housing loans for the securitisation of assets. The secondary part of the study concludes that the innovation of such technique has increased the operational efficiency of the banks thereby reducing the chances of credit risk, liquidity of the banks have increased by moving non-liquid funds into tradeable securities and enhancing the profitability and liquidity of the banks.

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## I. Introduction

RETAINING THE LOANS till their maturity makes them stationary, thereby leading the banks in past to originate and hold attitude. Banks have the discretion for funding the assets, such as loans extended to customers as well as business houses either by way of deposits of the process of securitisation of current loan assets. Earlier banks use to issue and monitor loans and show them on balance sheets till the repayment. But, the last decade of economy has been characterised by the evolution of innovative financial instrument known as Securitization. With its introduction, banks have been able to sell of their loans, making the bank balance sheet more liquid. This led to change in attitude of banks, put firmly, 'originate to securitize' (Diamond and Rajan, 2009).

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additional funds and efficient mobilization of funds at cheaper cost. For organised working, SARFAESI Act, 2002 was introduced that improved the performance of this deal by overcoming the challenges such as problem in registration of assignment of debt, prevailing legal status of the special purpose vehicle is not recognized by any act and various provisions of transfer of property act, stamp act, registration act which may need revision in a cost-effective manner. Amongst Asset Backed Securitization and Mortgage Backed Securitization, MBS has more usage comparatively at a response rate of 61.36 with pay through and pass through as most widely used methods. This process not only paybacks to the banks but also to the originator, investor and special purpose vehicle.

The process of securitization is now-a-days undertaken in every bank and helps in increasing the liquidity of banks, also decreasing the credit risk of the bank. The findings of the study support the implementation of the securitization process in their system so as to decrease the number of non-performing assets, improve the liquidity position, credit enhancement, better risk management, increased returns, and enhanced availability of funds and capital at a cheaper rate. This process not only aids to the bank, but also to all the parties involved in the process. Additionally, it brings stability in the financial system thereby leading to improved condition of economy's financial position.

Since the topic is high in practice, therefore *it requires certain insights to be further researched*. The study period undertaken can be enlarged. More variables can be included in the study to see the impact of securitisation on bank's operational and financial efficiency in terms of its profitability, increase in investor base, solvency of the banks. Various challenges of securitisation discovered under the present research can be further taken as a fully-owned topic for further study. Cross country comparison can be done. Macro variables can be considered such as impact of inflation and monetary policies on the securitisation process.

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**Annexure I**  
**Definition of Securitization as given by various Researchers**

<b>Source</b>	<b>Meaning of Securitization</b>
Davidson et al., 2003	Securitization is a process of formation of the pools of financial obligations and their shaping that allows financial assets to freely circulate among many investors. Thus, securitization allows to turn the original obligations in the purchase object.
Securitisation in Russia, 2005	Securitization is financing or refinancing of any assets of the company that generate revenues – for example, claims that arise in the ordinary course of business, by means of “conversion” of such assets in the tradable, liquid form through issue of bonds or other securities. In doing so, the company (originator) transfers a pool of its assets to a specially established entity, which in turn issues debt securities backed by the transferred assets.
Peter, 2006	Securitization is backed lending, in which the company gets a loan backed by assets or group of assets.
Garner, 2009	Securitization is packaging of loans or receivables in a pool using mechanisms of credit enhancements and the subsequent sale of the packed assets to investors. Investors buy repacked assets in the form of securities or a loan that are backed by this pool of assets. Thus, the securitization transforms illiquid assets into liquid.
Cummins and Weiss, 2009	“Repackaging and trading of cash flows that traditionally would have been held on the balance sheet.”
(Black’s Law Dictionary, 9th ed. Garner, 2009	Securitization is a process of averaging and packaging of financial instruments in the new instruments that can be sold.
Comptroller’s Handbook on Asset Securitization, 2016	Asset Securitization is the structured process whereby interests in loans and other receivables are packaged, underwritten, and sold in the form of “asset-backed” securities.

Source : Self Compiled

**Annexure II**  
**Sector-wise Composition of 42 Sample Banks under Secondary Study**

Public Sector Banks	Private Sector Banks	Foreign Sector Banks
Bank of Baroda	Axis Bank Ltd.	Abu Dhabi Commercial Bank Ltd.
Bank of India	C S B Bank Ltd.	B N P Paribas
Bank of Maharashtra	City Union Bank Ltd.	Bank of America N A
Canara Bank	D C B Bank Ltd.	Bank of Bahrain & Kuwait Bsc
Central Bank of India	Dhanlaxmi Bank Ltd.	Bank of Nova Scotia
Indian Bank	Federal Bank Ltd.	Barclays Bank Plc
Indian Overseas Bank	H D F C Bank Ltd.	Citibank N A
Punjab National Bank	I C I C I Bank Ltd.	Deutsche Bank A G
State Bank of India	I D B I Bank Ltd.	J P Morgan Chase Bank, National Association
Uco Bank	IndusInd Bank Ltd.	Shinhan Bank
Union Bank of India	Jammu & Kashmir Bank Ltd.	Standard Chartered Bank - India Branches
	Karnataka Bank Ltd.	
	Karur Vysya Bank Ltd.	
	Kotak Mahindra Bank Ltd.	
	Lakshmi Vilas Bank Ltd.	
	Nainital Bank Ltd.	
	R B L Bank Ltd.	
	South Indian Bank Ltd.	
	Tamilnad Mercantile Bank Ltd.	
	Yes Bank Ltd.	
Total=11	Total=20	Total=11

Source : Self Compiled

**Annexure III**  
**Definition and Measurement of the Variables used in the Study**

ROA (Return on Assets)	(Profit before tax / Book Value of Total assets) x100
Capital Ratio	Tier 1 risk-based capital ratio (%)
Liquidity Ratio	Liquid Assets/Total Assets
Leverage	Debt/Equity
Size	Log of Total Assets
Loan Activity	Total Loan/ Total Assets
Efficiency	(Operating expenses- Interest)/ (Interest income + non-interest income)
Risky income	Non-interest income/ revenue
Loan	Real Estate Loan
Problem Loan	Net non-performing assets (npa) to net advances (in %)
Securitised asset ratio	Loan items/total assets
Loan Ratio	Loan items/total loan
Asset Ratio	Risk Weighted Asset/Total Asset

Source : Self Compiled

**Annexure IV**  
**Sector-wise Composition of 56 Sample Banks under Primary Study**

<b>Public Sector Banks</b>	<b>Private Sector Banks</b>	<b>Foreign Sector Banks</b>
Bank of Baroda	Axis Bank Ltd.	Abu Dhabi Commercial Bank Ltd.
Bank of India	C S B Bank Ltd.	Australia & New Zealand Banking Group Ltd.
Bank of Maharashtra	City Union Bank Ltd.	B N P Paribas
Canara Bank	D C B Bank Ltd.	Bank of America N A
Central Bank of India	Dhanlaxmi Bank Ltd.	Bank of Bahrain & Kuwait Bsc
Indian Bank	Federal Bank Ltd.	Bank of Ceylon
Indian Overseas Bank	H D F C Bank Ltd.	Bank of Nova Scotia
Punjab & Sind Bank	I C I C I Bank Ltd.	Barclays Bank Plc
Punjab National Bank	I D B I Bank Ltd.	Citibank N A
State Bank of India	IndusInd Bank Ltd.	Cooperatieve Rabobank U A
Uco Bank	Jammu & Kashmir Bank Ltd.	Credit Suisse a G (Mumbai)
Union Bank of India	Karnataka Bank Ltd.	Deutsche Bank A G
	Karur Vysya Bank Ltd.	FirstRand Bank Ltd.
	Kotak Mahindra Bank Ltd.	Industrial & Commercial Bank of China Ltd.
	Lakshmi Vilas Bank Ltd.	J P Morgan Chase Bank, National Association
	Nainital Bank Ltd.	Mashreqbank P S C
	R B L Bank Ltd.	Mizuho Bank Ltd.
	South Indian Bank Ltd.	Shinhan Bank
	Tamilnad Mercantile Bank Ltd.	SocieteGenerale
	Yes Bank Ltd.	Standard Chartered Bank - India Branches
		Sumitomo Mitsui Banking Corp.
		United Overseas Bank - Mumbai Branch
		Westpac Banking Corp.
		Woori Bank
<b>Total=12</b>	<b>Total=20</b>	<b>Total=24</b>

Source : Self Compiled