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Impact of Securitization on Indian Banks: An Empirical Study

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This paper aims to investigate the extent of securitization exposure of Indian banks. The study proposes a conceptual model which identifies variables which are impacted by securitization. The objective of the study is to validate the extent of increasing involvement of Indian banks in securitization activity i.e., whether securitization of assets has a positive impact on Indian banks. The conceptual model developed is tested by using correlation of securitization indicator to total assets, nonperforming assets, net and gross profits. Cluster Analysis is used to classify banks into active and passive based on securitization indicator. Correlation and T test is performed to check the significance and impact of securitization on profitability and stability of banks.

Key words: Securitization, Securitization Indicator, Profitability, Liquidity, Assets.

Introduction

Reserve bank of India defined securitisation as the process of converting a pool of homogenous financial assets into marketable securities by banks. A special purpose vehicle (SPV) is created to issue these securities that are then sold to the buyers. The assets are transferred from the balance sheet of the originator i.e. bank to the special purpose vehicle in return for an immediate cash payment. Many financial assets in the global scenario have been securitized in recent years with the growth of structured products like Collateral Debt Obligations, Collateral Loan Obligations and Credit card securitization. Securitization has grown fastest in the mortgage markets (Lontskina & Strahan, 2009). Reforms in the Indian financial markets increased competition among banks and resulted in a shift from traditional activities like accepting deposits and extending advances to investment banking activities. The banks started earning profits from fee based activities rather than fund based activities. Interest rate deregulation, increase in competition from non-bank finance companies (NBFC's) which also offer services similar to banks and banks moving towards Basel III norms has an impact on their liquidity and profitability. This made banks look at securitizing their assets as one of the options for liquidity management.

Securitization is in a very nascent stage in India. It first began in the early nineties. Initially securitization was used as a tool to transfer portfolios from one balance sheet (originator) to the others predominantly with auto loans. With the reforms in the Indian financial markets in the 1990s, non banking finance companies and banks have started playing an active role in the retail banking business which resulted in large pool of assets like credit card loans and other loans like auto and housing which paved the way to the growth of securitization in India.

RBI guidelines provide regulatory framework for securitization. RBI has revised the guidelines of securitization in 2011 and made it stringent. These were like stumbling blocks for Indian banks and have eliminated incentives for banks to go in for securitization. Some of them are as follows:

- Prescribed holding period of an asset before securitizing by the bank is a minimum of one year.
- To discourage banks from securitizing loans with poor credit rating, RBI has set a maximum limit of 20 percent on the amount of securitization on the originating banks books which includes credit enhancement. Credit enhancement is provided to the special purpose vehicle to cover the losses associated with the pool of assets. The level of credit enhancement is determined based on the credit rating given by the credit rating agency.
- In case the bank's exposure exceeds 20 percent limit because of devolvement of underlying securities, the excess amount will be deducted from the capital (50 percent from Tier I and 50 percent from Tier II).

Conceptual Model

A conceptual model is developed taking into consideration few

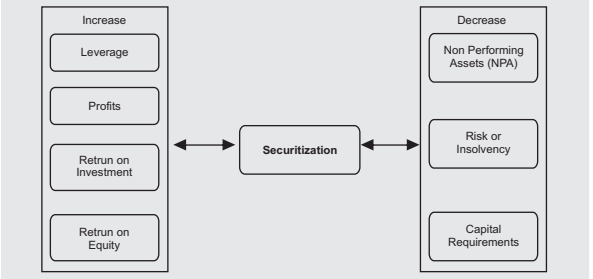

Figure 1: Conceptual Model of Securitization

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parameters which could be impacted by the securitization process. The model is validated in the later part of the study in the form of accepting or rejecting the null hypothesis.

Review of Research

Securitisation in the Indian banking sector is an emerging concept in the Indian scenario. The exposure of the Indian banks to securitisation is quite less compared to banks in other developed countries. The past research conducted gives empirical evidence on the impact of securitization on banks stability, risk and profitability. Most of the research has been conducted in the developed countries.

Altunbas, Y et al. (2007) argue that the effectiveness of the bank lending channel strongly depends on bank's capacity to "originate, repackage and sell" their loans. According to them, securitisation increases the capacity of banks to give new loans to households and firms. They argue that banks that securitise their assets are protected from the effects of monetary policy changes.

Ambrose, B.W et al. (2005) find evidence that lenders retain high-risk loans for their portfolio while selling low-risk loan to the secondary market, motivated for regulatory capital incentives or a concern for reputation. Securitization may increase credit risk and consequently capital requirements need to reflect the risk of assets held on balance sheet.

Cantor and Rouyer (2000) argue that the credit risk position of the issuer in securitization improves if the riskiness of the securities sold to investors is higher than that of the issuer prior to the securitization otherwise the transaction might intensify the issuer's net exposure to the default risk of its assets. Dionne and Harchaoui (2003) find a positive relation between securitization and overall bank credit risk.

Ambrose et al. (2002) find evidence to the fact that lenders tend to retain riskier loans in their portfolios while selling safer loans to the secondary market. Contradictory evidence is found which proves that the default rates on the loans kept by the issuer are lower than the default rates on the loans sold to other investors. Cebenoyan and Strahan (2004) in their study suggest that securitization reduces the risk for banks.

Hansel and Krahnen (2007) used an event study methodology to understand the impact of securitisation on the bank's risk. As per their research it is provided evidence that credit risk securitization has a positive impact on the increase of a bank's systematic risk. They prove that an increase in the volume of credit risk transfer has a negative impact on the banks' asset quality and hence financial soundness.

Jiangli and Pritsker (2008) examined the effect of mortgage loan securitizations on bank stability, profitability and leverage of US banks for the period from 2001-2007. As per their study, there is a positive relationship between securitization and bank's leverage. The researchers provided evidence that the bank's profitability increases due to securitization. Research shows evidence that banks use the proceeds from securitization to issue loans with higher than average default risk.

Murray (2005) argues that securitization may increase the risk if the bank securitizes its good assets and, therefore, the assets that remain on-balance sheet after securitization are their bad quality assets.

Uzun and Webb (2007) examine the impact of securitization on banking stability. This study was conducted in 2001-2005 in US on 112 financial institutions. They find that securitization is negatively related to banks stability and liquidity. The decrease in financial soundness is predominately associated with securitization of credit card receivables whereas securitization of mortgage loans and home equity lines of credits have a positive impact on banking stability.

Banks go for asset-securitization through which they give existing loans to investors and use the cash proceeds to originate new loans. This helps banks to grant new loans with small amount of capital employed which would in turn help them to improve their ROE (Wolfe; 2000).

Methodology

The research for the study has been predominantly taken from the secondary sources. The research has been undertaken to understand the extent of securitisation in Indian public and private sector banks. The time period for the study is 2005-2011. A sample of 13 private and 25 public sector banks is selected for the purpose of this research. The data has been taken from the respective banks balance sheet and ratios from Capitaline. The securitisation indicator developed by Zakaria R H & Ismail A G has been used in this study to prove the hypothesis. Mathematically, the Securitization Indicator for each bank is as follows:

$$\sum_{i=1}^{n} (\text{Securitisation} / \text{Total Assets}) * \text{Weight}$$

where Securitization = Total securitisation exposure for a bank

Weight = (Securitisation exposure of a bank / Total Securitisation exposure)

The indicator for a bank's involvement in securitization transaction is calculated by the multiplication of the ratio of notional value of securitization instrument to total assets with the weight of bank for its share of securitisation. The weight is calculated taken into consideration the securitisation exposure

parameters which could be impacted by the securitization process. The model is validated in the later part of the study in the form of accepting or rejecting the null hypothesis.

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Ambrose, B.W et al. (2005) find evidence that lenders retain high-risk loans for their portfolio while selling low-risk loan to the secondary market, motivated for regulatory capital incentives or a concern for reputation. Securitization may increase credit risk and consequently capital requirements need to reflect the risk of assets held on balance sheet.

Cantor and Rouyer (2000) argue that the credit risk position of

Table 1: Securitisation Indicator of the banks in the sample from 2005-2011

Name of the bank	2005	2006	2007	2008	2009	2010	2011
Allahabad Bank	0	0	3.53E-09	1.43E-05	1.07E-11	8.72E-08	6.18E-07
Andhra Bank	3.74E-08	0	0	1.85E-07	1.35E-12	0	0.00E+00
Axis Bank	0.001107	0	0	0	0	0	0.00E+00
Bank of Baroda	0	5.85E-07	3.58E-07	1.31E-05	0	3.52E-07	0.00E+00
Bank of India	7.86E-07	2.72E-06	4.34E-06	6.70E-06	2.04E-05	0	1.45E-08
Bank of Maharashtra	1.24E-07	1.30E-07	1.84E-07	8.02E-08	0	0	0.00E+00
Canara Bank	3.05E-07	0	0	0	0	0	0.00E+00
Central Bank of India	0	0	0	0	0	0	5.16E-05
Corporation Bank	0	7.87E-09	0	0	0	7.93E-08	0.00E+00
Dena Bank	0	6.62E-07	3.34E-07	5.77E-08	3.98E-08	0	5.73E-08
Development Credit Bank	0	0	0	5.31E-06	0	0	0.00E+00
Federal Bank	0	0	0	0	0	0	1.30E-05
HDFC Bank	0.039673	0.006962	0.000551	0.000111	0.004312	0.0014	8.67E-04
ICICI Bank	0.116892	0.03557	0.04001	0.00029	0.000151	0.02879	0.00E+00
IDBI Bank	0	0	0	0.000243	7.14E-05	0	8.24E-09
Indian Bank	0	0	0	0	0	0	7.52E-05
Indus Ind Bank	0	5.34E-06	0	0	2.49E-06	7.66E-06	0.00E+00
ING Vysya Bank	0.000194	0	5.25E-05	0.000112	0	0	0.00E+00

Indian Overseas Bank	0	0	0	3.89E-06	0	1.73E-08	7.92E-05
J&K Bank	0	0	0	0	0	0	7.27E-08
Karnataka Bank	0.004251	0.001854	0	0	0	0	2.67E-07
Kotak Mahindra Bank	0	0.083521	0.011611	0.05918	0.008131	0.000829	3.24E-02
Lakshmi Vilas Bank	0	7.62E-06	1.44E-07	0	0	0	9.08E-04
Oriental Bank	0	0	1.93E-07	1.06E-06	1.47E-07	8.13E-09	0.00E+00
Punjab National Bank	2.74E-06	6.10E-06	4.10E-07	3.79E-05	1.41E-06	0	3.29E-09
State Bank of India	4.03E-05	6.30E-05	5.08E-07	4.07E-07	2.93E-07	0	0.00E+00
State Bank of Travancore	3.03E-09	3.98E-08	5.49E-08	0	3.84E-06	0	0.00E+00
South Indian Bank	6.22E-07	0	0	0.022872	0	0	0.00E+00
State Bank of Patiala	0	3.81E-08	8.04E-08	0	0	0	0.00E+00
State Bank of Bikaner	9.53E-08	2.14E-08	2.16E-09	2.29E-09	6.13E-08	1.91E-08	0.00E+00
State Bank of Hyderabad	4.15E-09	1.62E-09	2.17E-09	1.87E-09	1.53E-09	0	0.00E+00
State Bank of Mysore	2.30E-07	2.54E-07	8.43E-12	1.58E-10	0	0	7.47E-08
Syndicate Bank	1.69E-08	3.06E-08	0	1.13E-06	0	8.35E-08	1.17E-09
UCO Bank	0	5.15E-08	7.60E-07	3.17E-08	1.39E-07	5.12E-07	6.93E-07
Union Bank	0	3.11E-08	0	1.06E-07	1.40E-06	1.17E-06	3.50E-08
United Bank	0	0	3.25E-07	7.45E-09	0	2.78E-08	0.00E+00
Vijaya Bank	0	0	0	0	0	3.05E-08	2.44E-05
Yes Bank	0	6.42E-07	0.026244	0.121793	0.298148	0	5.77E-04
Max	0.116892	0.083521	0.04001	0.121793	0.298148	0.02879	0.032413
Min	0	0	0	0	0	0	0
Skewness	5.442336	5.107288	4.195653	4.767339	6.235949	6.21504	6.228356
Kurtosis	30.88501	27.29457	17.86849	23.91359	38.92149	38.73708	38.85572
Mean	0.004158	0.003282	0.002012	0.005248	0.00797	0.000796	0.000898
Median	0	2.14E-08	2.16E-09	5.77E-08	0	0	1.17E-09

the issuer in securitization improves if the riskiness of the securities sold to investors is higher than that of the issuer prior to the securitization otherwise the transaction might intensify the issuer's net exposure to the default risk of its assets. Dionne and Harchaoui (2003) find a positive relation between securitization and overall bank credit risk.

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Hansel and Krahnen (2007) used an event study methodology

Table 2: Correlation between and Securitisation Indicator and Non-Performing Assets / Total Assets

S No.	Name of the banks	Correlation between Non Performing Assets /Total Assets And Securitisation Indicator	T Statistic	Accept / Reject H0
1	Allahabad Bank	-0.24575	1.521	Can't Reject H0
2	Andhra Bank	-0.12579	0.761	Can't Reject H0
3	Axis Bank	0.597649	4.473	Reject H0
4	Bank of Baroda	-0.18773	1.147	Can't Reject H0
5	Bank of India	-0.66262	5.308	Reject H0
6	Bank of Maharashtra	0.67574	5.500	Reject H0
7	Canara Bank	0.927585	14.896	Reject H0
8	Central Bank of India	-0.20712	1.270	Can't Reject H0
9	Corporation Bank	-0.34869	2.232	Reject H0
10	Dena Bank	0.363312	2.340	Reject H0
11	Development Credit Bank	-0.66885	5.398	Reject H0
12	Federal Bank	-0.00268	0.016	Can't Reject H0
13	HDFC Bank	-0.53406	3.790	Reject H0
14	ICICI Bank	-0.41585	2.744	Reject H0
15	IDBI Bank	-0.20519	1.258	Can't Reject H0
16	Indian Bank	-0.27171	1.694	Reject H0
17	Indus Ind Bank	0.536619	3.816	Reject H0
18	ING Vysya Bank	0.807644	8.218	Reject H0
19	Indian Overseas Bank	-0.50319	3.494	Reject H0
20	J&K Bank	-0.58931	4.377	Reject H0

21	Karnataka Bank	0.97421	25.905	Reject H0
22	Kotak Mahindra Bank	-0.4233	2.803	Reject H0
23	Lakshmi Vilas Bank	-0.52461	3.697	Reject H0
24	Oriental Bank	-0.18934	1.157	Can't Reject H0
25	Punjab National Bank	0.032412	0.195	Can't Reject H0
26	State Bank of India	0.568826	4.150	Reject H0
27	State Bank of Travancore	-0.01291	0.077	Can't Reject H0
28	South Indian Bank	-0.37707	2.443	Reject H0
29	State Bank of Patiala	-0.55609	4.015	Reject H0
30	State Bank of Bikaner	0.588389	4.366	Reject H0
31	State Bank of Hyderabad	0.009669	0.058	Can't Reject H0
32	State Bank of Mysore	0.660917	5.284	Reject H0
33	Syndicate Bank	-0.16295	0.991	Can't Reject H0
34	UCO Bank	-0.23667	1.462	Can't Reject H0
35	Union Bank	-0.59516	4.444	Reject H0
36	United Bank	0.059173	0.356	Can't Reject H0
37	Vijaya Bank	0.301724	1.899	Reject H0
38	Yes Bank	0.026973	0.162	Can't Reject H0

5 percent level of significance.

to understand the impact of securitisation on the bank's risk. As per their research it is provided evidence that credit risk securitization has a positive impact on the increase of a bank's systematic risk. They prove that an increase in the volume of credit risk transfer has a negative impact on the banks' asset quality and hence financial soundness.

Jiangli and Pritsker (2008) examined the effect of mortgage loan securitizations on bank stability, profitability and leverage of US banks for the period from 2001-2007. As per their study, there is a positive relationship between securitization and bank's leverage. The researchers provided evidence that the bank's profitability increases due to securitization. Research shows evidence that banks use the proceeds from securitization to issue loans with higher than average default risk.

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Banks go for asset-securitization through which they give

Table 3: Correlation between Securitisation Indicator and Total Advances / Total Assets

S No.	Name of the banks	Correlation between Total Advances /Total Assets And Securitisation Indicator	T Statistic	Accept / Reject H0
1	Allahabad Bank	0.224917	1.385	Can't Reject H0
2	Andhra Bank	-0.064359	0.387	Can't Reject H0
3	Axis Bank	-0.699785	5.878	Reject H0
4	Bank of Baroda	-0.140425	0.851	Can't Reject H0
5	Bank of India	0.158665	0.964	Can't Reject H0
6	Bank of Maharashtra	0.353394	2.267	Reject H0
7	Canara Bank	-0.813812	8.402	Reject H0
8	Central Bank of India	-0.625753	4.813	Reject H0
9	Corporation Bank	-0.122641	0.741	Can't Reject H0
10	Dena Bank	-0.229155	1.413	Can't Reject H0
11	Development Credit Bank	0.089043	0.536	Can't Reject H0
12	Federal Bank	0.506751	3.527	Reject H0
13	HDFC Bank	-0.308537	1.946	Reject H0
14	ICICI Bank	-0.760016	7.017	Reject H0
15	IDBI Bank	0.570926	4.172	Reject H0
16	Indian Bank	0.434019	2.891	Reject H0
17	Indus Ind Bank	0.275986	1.723	Reject H0
18	ING Vysya Bank	0.092551	0.558	Can't Reject H0
19	Indian Overseas Bank	0.288977	1.811	Reject H0
20	J&K Bank	-0.276348	1.725	Reject H0
21	Karnataka Bank	-0.646520	5.085	Reject H0
22	Kotak Mahindra Bank	0.164502	1.001	Can't Reject H0
23	Lakshmi Vilas Bank	0.137364	0.832	Can't Reject H0
24	Oriental Bank	0.286186	1.792	Reject H0
25	Punjab National Bank	-0.012050	0.072	Can't Reject H0
26	State Bank of India	-0.799050	7.974	Reject H0
27	State Bank of Travancore	0.071451	0.430	Can't Reject H0

28	South Indian Bank	0.193029	1.180	Can't Reject H0
29	State Bank of Patiala	0.100930	0.609	Can't Reject H0
30	State Bank of Bikaner	-0.704901	5.963	Reject H0
31	State Bank of Hyderabad	-0.919143	14.000	Reject H0
32	State Bank of Mysore	-0.875030	10.846	Reject H0
33	Syndicate Bank	-0.056394	0.339	Can't Reject H0
34	UCO Bank	0.443265	2.967	Reject H0
35	Union Bank	0.097582	0.588	Can't Reject H0
36	United Bank	0.068464	0.412	Can't Reject H0
37	Vijaya Bank	0.442066	2.957	Reject H0
38	Yes Bank	-0.812509	8.363	Reject H0

5 percent level of significance

existing loans to investors and use the cash proceeds to originate new loans. This helps banks to grant new loans with small amount of capital employed which would in turn help them to improve their ROE (Wolfe; 2000).

Methodology

The research for the study has been predominantly taken from the secondary sources. The research has been undertaken to understand the extent of securitisation in Indian public and private sector banks. The time period for the study is 2005-2011. A sample of 13 private and 25 public sector banks is selected for the purpose of this research. The data has been taken from the respective banks balance sheet and ratios from Capitaline. The securitisation indicator developed by Zakaria R H & Ismail A G has been used in this study to prove the hypothesis. Mathematically, the Securitization Indicator for each bank is as follows:

$$\sum_{i=1}^{n} (\text{Securitisation} / \text{Total Assets}) * \text{Weight}$$

Table 4: Correlation between Securitisation Indicator and Gross Profit

S No.	Name of the banks	Correlation between Securitisation Indicator and Gross Profit	T Statistic	Accept / Reject Ho
1	Allahabad Bank	-0.1718	1.047	Can't Reject H0
2	Andhra Bank	-0.2058	1.262	Can't Reject H0
3	Axis Bank	-0.5532	3.984	Reject H0
4	Bank of Baroda	-0.0893	0.538	Can't Reject H0
5	Bank of India	-0.0584	0.351	Can't Reject H0
6	Bank of Maharashtra	-0.8086	8.247	Reject H0
7	Canara Bank	-0.0901	0.543	Can't Reject H0
8	Central Bank of India	0.7446	6.693	Reject H0

9	Corporation Bank	0.1371	0.830	Can't Reject H0
10	Dena Bank	-0.4374	2.919	Reject H0
11	Development Credit Bank	-0.1033	0.623	Can't Reject H0
12	Federal Bank	0.6464	5.083	Reject H0
13	HDFC Bank	-0.8318	8.992	Reject H0
14	ICICI Bank	-0.5801	4.273	Reject H0
15	IDBI Bank	-0.0480	0.288	Can't Reject H0
16	Indian Bank	0.6910	5.735	Reject H0
17	Indus Ind Bank	0.0433	0.260	Can't Reject H0
18	ING Vysya Bank	-0.6081	4.596	Reject H0
19	Indian Overseas Bank	0.7119	6.083	Reject H0
20	J&K Bank	0.1134	0.685	Can't Reject H0
21	Karnataka Bank	-0.6965	5.824	Reject H0
22	Kotak Mahindra Bank	-0.1639	0.997	Can't Reject H0
23	Lakshmi Vilas Bank	0.8397	9.277	Reject H0
24	Oriental Bank	-0.2533	1.571	Can't Reject H0
25	Punjab National Bank	-0.2886	1.809	Reject H0
26	State Bank of India	-0.6101	4.620	Reject H0
27	State Bank of Travancore	-0.0435	0.261	Can't Reject H0
28	South Indian Bank	-0.3288	2.089	Reject H0
29	State Bank of Patiala	-0.3701	2.390	Reject H0
30	State Bank of Bikaner	0.0020	0.012	Can't Reject H0
31	State Bank of Hyderabad	-0.6969	5.831	Reject H0
32	State Bank of Mysore	-0.5183	3.636	Reject H0
33	Syndicate Bank	-0.2204	1.356	Can't Reject H0
34	UCO Bank	0.6371	4.959	Reject H0
35	Union Bank	0.0389	0.234	Can't Reject H0
36	United Bank	0.2386	1.474	Can't Reject H0
37	Vijaya Bank	0.7265	6.344	Reject H0
38	Yes Bank	-0.3174	2.008	Reject H0

5 percent level of significance

In 20 out of 38 sample banks taken, securitization has an impact on the gross profit of the bank. The gross profit of Federal Bank, Indian Bank, Indian Overseas bank, Lakshmi Vilas Bank, UCO Bank and Vijaya Bank are the banks which have a positive correlation with securitization indicator and is significant at 5 percent level of significance. There could be other factors which could probably have an impact on gross profit along with securitization. A limitation for the study is that the other factors which have an impact on the gross profitability are not considered.

Hypothesis 5

Ho: Securitization has no impact on the net profitability of banks

Table 5: Correlation between Securitisation Indicator and Net Profit

S No.	Name of the banks	Correlation between Securitisation Indicator and Net Profit	T Statistic	Accept / Reject H0
1	Allahabad Bank	-0.17607	1.073	Can't Reject H0
2	Andhra Bank	-0.24239	1.499	Can't Reject H0
3	Axis Bank	-0.59764	4.472	Reject H0
4	Bank of Baroda	0.13683	0.829	Can't Reject H0
5	Bank of India	-0.07155	0.430	Can't Reject H0
6	Bank of Maharashtra	-0.73663	6.535	Reject H0
7	Canara Bank	-0.37488	2.426	Reject H0
8	Central Bank of India	0.69242	5.758	Reject H0
9	Corporation Bank	0.34663	2.217	Reject H0
10	Dena Bank	0.02811	0.169	Can't Reject H0
11	Development Credit Bank	0.15903	0.966	Can't Reject H0
12	Federal Bank	0.74266	6.654	Reject H0
13	HDFC Bank	-0.70819	6.018	Reject H0
14	ICICI Bank	-0.65542	5.207	Reject H0
15	IDBI Bank	0.05323	0.320	Can't Reject H0
16	Indian Bank	0.18518	1.131	Can't Reject H0
17	Indus Ind Bank	0.00088	0.005	Can't Reject H0
18	ING Vysya Bank	-0.59992	4.499	Reject H0
19	Indian Overseas Bank	0.65585	5.213	Reject H0
20	J&K Bank	0.07588	0.457	Can't Reject H0
21	Karnataka Bank	-0.53444	3.794	Reject H0
22	Kotak Mahindra Bank	0.04480	0.269	Can't Reject H0
23	Lakshmi Vilas Bank	0.76531	7.134	Reject H0

24	Oriental Bank	-0.19491	1.192	Can't Reject H0
25	Punjab National Bank	-0.18925	1.156	Can't Reject H0
26	State Bank of India	-0.74912	6.785	Reject H0
27	State Bank of Travancore	0.03789	0.227	Can't Reject H0
28	South Indian Bank	-0.16423	0.999	Can't Reject H0
29	State Bank of Patiala	-0.38029	2.467	Reject H0
30	State Bank of Bikaner	-0.35998	2.315	Reject H0
31	State Bank of Hyderabad	-0.82468	8.748	Reject H0
32	State Bank of Mysore	-0.65794	5.242	Reject H0
33	Syndicate Bank	-0.14360	0.871	Can't Reject H0
34	UCO Bank	0.39989	2.618	Reject H0
35	Union Bank	-0.18818	1.150	Can't Reject H0
36	United Bank	0.18354	1.120	Can't Reject H0
37	Vijaya Bank	0.78038	7.488	Reject H0
38	Yes Bank	0.05202	0.313	Can't Reject H0

5 percent level of significance

Securitization has a positive impact on the profitability of banks like Central Bank of India, Corporation Bank, Federal Bank, Indian Overseas Bank, Lakshmi Vilas Bank, UCO Bank and Vijaya Bank. The securitization indicator has a positive correlation with the profitability of these banks and is significant at 5 percent level of significance. Hence the null hypothesis is rejected.

Discussion and Conclusion

The study is to validate the conceptual model developed with the factors which are affected by increasing involvement of Indian banks in securitization activity. The factors selected are credit risk, liquidity of banks, gross and net profitability vis-à-vis securitization indicator which is developed by Zakaria and Ismail which is used in this study. Securitization though is adopted by Indian banks, the securitization exposure has been negligible and most of the times not on a regular year on year basis. This study has provided evidence that securitization has a positive impact on reducing the credit risk, increasing the liquidity of banks, increasing the gross and the net profitability of most of the banks. The stringent changes in regulations on banks slowed down the securitization process. With new banks and NBFCs coming up there are expectations that there would be probably boom in the securitization process. Strong regulations from RBI can make securitization a strong catalyst in mobilizing domestic savings and increasing liquidity and profitability. Securitising project finance, Telecom, and toll road receivables would come up in a big way in India in the future.

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