CHAPTER II

LITERATURE REVIEW

2.1 Introduction

Literature survey forms the foundation of this research work. The survey helped the researcher to critically evaluate the diversified findings of authors and institutions. The survey of the vast pool of empirical findings, on which the present research work seeks to add something, helped to build a specific frame for this study. Existing theories of financial inetrmediation has been reviewed. Various studies on the performnace of non banking financial intermediaries has been examined to understand the gap existing in the field. Following paragraphs briefly explain the existing literature.

2.2 Literature Review

Rajan & Zingales (1998), in *"Financial dependence and growth"*, examined whether financial development facilitates economic growth. They scrutinized the relationship between financial development and cost of external finance of firms. They, using a large sample of countries during the 1980's, found that industrial sectors, those need external finance more, showed disproportionate faster growth in countries with more elaborated financial markets. The data on value addition and gross fixed capital formation for each industry was gathered from the Industrial Statistics Yearbook of United Nations Statistical Division. Equity market capitalization data were acquired from International Finance

Corporation. Although the study considered 55 countries initially, 41 countries' data were sustained. By reducing the cost of external finance to financially dependent firms, financial development can substantially contribute to the economic growth.

Shittu & Ibrahim (2012) examined the impact of financial intermediation on economic growth in Nigeria. They used time series data from 1970 to 2010 which were gathered from the Central Bank of Nigeria (CBN) publications. Unit root test, co integration and Engle-Granger techniques were used for analysis. They found that financial intermediation has a significant impact on the economic growth in Nigeria. The annual data collected from the CBN Statistical Bulletin, Annual reports and Mid-Year Economic Review.

Outreville, (1999) empirically analyzed the relationship between the level of financial development and socio-economic variables. Based on the study on 57 developing countries, it was indicated that human capital and socio-political stability are important factors explaining the level of financial development of those markets.

In some situations, banks could not refinance short-term liabilities. This inability may be arised from solvency concerns. Management of this risk is, generally, by way of an accumulation of a buffer of liquid assets or by strengthening the transparency of communicating the solvency. Liquidity buffer provides complete insurance against small shocks. Transparency covers the large shocks but not perfectly. Leverage allow an unregulated bank to choose insufficient liquidity buffers and transparency (Ratnovski, 2013). The author corroborates that the regulatory response is constrained: while liquidity buffers can be imposed, transparency is not verifiable. Further, liquidity requirements can compromise banks' transparency choices, which may result in refinancing risk. The author recommends that liquidity requirements should be complemented by measures that increase bank incentives to adopt transparency.

This theoretical validations are important for any financial intermediary. Non Banking Financial Institutions run with a confidence of leverage, that implies an insufficient liquidity and transparency. The selection of the types of complementary measures to adopt transparency of these entities is debatable. The above work is, thus a motivation to look into the leverage, liquidity and transparency of bank and bank like financial intermediaries. Being transparent during normal times is not sufficient (Flannery, Kwan, & Nimalendran, 2013). The authors' empirical anasysis shows that banks are not qualitatively more opaque than non financial firms during "normal" periods. They used a 17-year sample period (1993-2009) and found that asset composition affects opacity measures. Identification of the specific asset classes causing the sensitivity is a challenging task. Since some non banks were at the centre of the major economic crises, the transparency and disturbing assets of such intermediaries deserve study.

More than two thirds of the estimated productivity growth in the years 2000-2007 is attributed to bank's practices (Oliver, Ruano, & Fumás, 2013). These practies are the expansion of credit in the housing market, the high recourse to securitisation and short-term finance, the reduction in liquidity holdings, and the leverage process of banks' balance sheets. These are the ultimate causes of the crisis. Authors studied the situation of Spanish banks in the pre-crisis period.

Individual financial firms cannot determine their optimal capitalisation in isolation (Bernardo & Welch, 2013). Financial firms have to take the aggregate financial sector characterestics into account. In particular, they become more aggressive when their peers are more conservative.

Kupiec & Ramirez (2013) measured the effect of bank failures on economic growth. They used data from 1900 to 1930. The period was characterised without active government stabilisation policies and several severe banking crises. Their vector autoregression (VAR) model estimates suggest that bank failures have long-lasting negative effects on economic growth. Their Panel VAR model estimates for the 48 states show bank failures aggravate commercial non-bank failures. Institutional and regulatory features affect the intensity of the bank failure effect. They found that bank failures have a larger impact in states with deposit insurance, in states concentrated more on agriculture, and in states with fewer large firms. The authors modelled relationships between bank failures and the growth rate of industrial production and aggregate output (GNP). Their data include nearly 6000 quarterly observations for the 48 states from 1900 Q1 through 1931 Q2. The data include failed national banks as well as failed state-chartered banks and trust companies.

Anginer, Kunt, & Zhu (2014) showed a robust negative relationship between bank competition and systemic risk. They found that greater competition encourages banks to take on more diversified risks. It make the banking system less fragile to shocks. In addition, banking systems are more fragile in countries with weak supervision and private monitoring, greater government ownership of banks, and with public policies that restrict competition. They also found that the negative effect of lack of competition can be mitigated by a strong institutional environment that allows for efficient public and private monitoring of financial institutions. Their sample consisted 1872 unique publicly traded banks in 63 countries from 1997 to 2009.

Probability of distressed bank failure is increased with asset-based non traditional activities (DeYoung & Torna, 2013). Authors' interest was to test whether income from nontraditional banking activities contributed to the failures of hundreds of U.S commercial banks during the financial crisis. They estimated using a multi-period logit model. Banks that engaged in risky nontraditional activities tended to take risk in their traditional lines of business. The authors identified the defining characterestics of banks that failed between the third quarter of 2008 and the fourth quarter of 2010, based on their activities two quarter prior to their failure.

Carrasco & Salgado (2014) studied the bank run which is originating in the bank's asset side, rather than from its funding structure. Coordinated strategic defaults[3] are a source of financial fragility.

Interconnectedness is a key driver of systemic importance (Drehmann & Tarashev, 2013). The authors tried to measure the extent to which a bank (i) propogates shocks across the system and (ii) is vulnerable to propogated shocks. Their measure of system-wide risk is the expected loss that the banking system as a whole imposes on non-banks in systemic events[4].

Beck, Jonghe, & Schepens (2013) documented large cross-country variation in the relationship between bank competition and bank stability. They showed that an increase in competition will have a larger impact on banks' fragility in countries with stricter activity restrictions, lower systemic fragility, better developed stock exchanges, more generous deposit insurance and more effective systems of credit information sharing. They analysed the sample of 17055 banks for the period of 1994-2009. 53.4 percent of the sample constitute commercial banks, 28.2 percent of the sample constitute savings bank and 18.4 percent of the sample constiute cooperative banks.

Gauthier, Lehar, & Souissi (2012) found that financial stability can be substantially enhanced by implementing a systemic perspective on bank regulation. Authors used a network based structural model to measure systemic

[3] A debtor has the financial means to pay off his debt, but chooses not to.
[4] Events in which aggregate losses exceed a critical level

risk. They used a data set of six largest Canadian banks as a representation of the whole Canadian banking system.

Jeromi (2007) analyzed the working of money lenders in Kerala. Estimating the volume of deposits and credit of money lenders, the study brought out the undesirable aspects and its impact on society. Primary data gathered from 97 money lenders in Ernakulam District and balance sheet data collected from 49 financiers. It was found that some of the informal financial institutions have links with formal financial institutions. To evade the law, some of the financiers raise funds in the name of sister concerns- who are engaged in real estate, housing, medical care, retail business etc.

Jonghe & Öztekin (2015) examined the dynamic behaviour of bank capital using a global sample of 64 countries during the 1994-2010 period. They illustrated that the capital structure of a bank reflects the environment it operates. Leveraging is accomplished through internal capital management, mainly through substantial asset expansion and reduced earnings retention. There is significant variation in the speed of adjustment to target capital structure. This variation, according to authors, is due to the differences in the regulatory, supervisory, and economic systems in which banks operate.

Goel, Song, & Thakor (2014) found a positive correlation between high leverage among borrowers and high leverage among banks. A banks's exposure to credit risk depends not only on its own leverage but also on the leverage decisions of other banks.

Carlson, Shan, & Warusawitharana (2013) showed that the elasticity of bank lending with respect to capital ratios is higher when capital ratios are relatively low. This suggests that the effect of capital ratio on bank lending is nonlinear. Based on the data from 2001 to 2011, the authors found that the relationship between capital ratios and bank lending was significant during and shortly following the financial crisis but not at other times.

Balmaceda, Fischer, & Ramirez (2014) showed that the effects of financial liberalisation on the credit market of a small and capital constrained economy depend on the market structure of domestic banks prior to liberalisation.

Popov (2014) found that lack of access to finance in general and to bank credit in particular, is associated with significantly lower investment in on-the-job training. He surveyed database of 8265 firms from 25 transition countries. He used the data of Business Environment and Enterprise Performance Survey (BEEPS). The World Bank and the European Bank for Reconstruction and Development conducted jointly this survey in 1999, 2002, 2005 and 2008.

Mehta & Mehta (1991) examined the extent of financial deepening and role of institutional housing finance in urban India and the distribution of funds across various income groups. It demonstrates that the middle and upper income families are the main beneficiaries of housing finance efforts.

Carey, Post, & Sharpe, (1998) empirically established the existence of specialization in private market corporate lending. The study was based on the comparison of corporate loans provided by banks and by finance companies.

Although the two types of intermediaries are cautious in financing information-problematic firms, finance companies favoured riskier borrowers, especially more leveraged borrowers. Regulatory and reputational factors contribute to the specialization of lending. They took a sample of loan agreements from Loan Pricing Corporation's (LPC) Dealscan database for a period of six years from 1987 to 1993, some of which were U.S business borrowers.

Sakyi, Ofoeda, Coleman, & Abor (2014) examined the risk levels of Non-Bank Financial Institutions (NBFIs) and their effect on performance. NBFIs have been safe as far as bankruptcy is concerned. Lower risk levels lead to an increase in performance of NBFIs. Further, the size of NBFIs has a positive relationship with performance. They used a panal data of 42 NBFIs in Ghana over the period of 2006-10.

Pastor, Lovell, & Tulkens (2006) evaluated the financial perormance of most of the branch offices of a large European savings bank. They employed a complementary pair of nonparametric techniques to evaluate their financial performance, in terms of their ability to conserve the expense they incurr in building their customer bases and providing customer services. They found variation in the ability of branch offices to perform this task, and agreement on the identity of the laggard branches.

Padmini (1997) evaluated the management practices adopted for harnessing the mobilisation and deployment of funds by District Co-operative Banks in Kerala (DCBs). The researcher found that though funds mobilisation is done reasonably well in most DCBs, sufficient attention is not given for efficient utilisation of these funds. Lack of professionalisation and poor management practices seems to be responsible for this situation.

Staikouras, Mamatzakis, & Koutsomanolu-Filippaki (2007) examined the operating performance of the South Eastern European (SEE) banking industry. Opertaing performance is found to be positively related to loan quality and the asset size or the bank's market share. Further, operating performance is negatively related to liquidity, the loan ratio and bank's age. Their dataset includes a large portion of banks in terms of the number of financial institutions opertaing in the SEE region and balance sheet aggregates. They covered the period 1998-2003.

ROE may be less of a performance benchmark than a communication tool in the relationship between banks and markets (European Central Bank, 2010). The main drivers of banks' profitability are earning, efficiency, risk-taking and leverage. Market participants- analysts, rating agencies, cunsultants and supervisors- must consider different aspects of profitability which are emphasised by various stakeholders- depositors, debt or equity holders and managers. A risk component represented by leverage can boost ROE in a substantial manner.

Hosen, Rahman, & Dutta, (2013) measured risk-adjusted performance of 19 NBFIs listed in Dhaka Stock Exchange. They found a reasonably better performance of the industry as a whole. Return of about 53 percentage selected

NBFIs found superior as compared to benchmark. They used convenient sampling technique and the sample is collected from a population having at least three years of operation starting from 2009-2011.

George & Kurian (2014), in their study titled *"Discernible growth of Gold Loan NBFCs in India"*, pointed out that the growth of Gold loan NBFCs is mainly on the backdrop of appreciation in gold price. These NBFCs heavily depends on commercial banks and fall in price of gold will ultimately affect the banking system and thereby financial sector itself. They collected data from RBI and two major NBFCs in kerala. The study was conducted for a period of 9 years staring from 2004.

Rioja & Valev (2004) examined a panel of 74 countries using generalised method of moments (GMM) dynamic panel techniques. In their study *"Does one size fit all?: a reexamination of the finance and growth relationship"*, they found that in the countries with low levels of financial development, additional improvements in financial markets have an uncertain effect on economic growth. Intermediate region witnessed a large, positive effect in growth driven by financial development. They also found that in the high region, the effect is positive, but smaller.

Fase & Abma, (2003) empirically studied relationship between financial development and economic growth in nine emerging economies in South East Asia. Remarkable increase in income and wealth of these Countries motivated the researchers to make such an attempt. Capital investment, financial development and GDP growth are focused variables. The researchers maintain that for the growth of GDP, Capital investment and aggregated financial assets stationary is warranted. The sample period at least covered 25 years data. Improvements of financial infrastructure in developing economics may benefit economic development.

Acharya, Khandwala, & Oncu, (2013) studied the determinants of the growth of the non deposit taking NBFCs in India. They termed these NBFCs as shadow banks which are systemically important to our country, examining the number of NBFCs, assets and liabilities using the data of NBFCs. These NBFCs are tightly regulated in our country comparing other developed economies. The researchers analyzed data using Simulated Maximum Likelihood Estimation (SMLE) approach. The authors analyzed NPA details of NBFCs, branch details, priority sector lending data and economic data such as wholesale price index and GDP. The observation period runs from 2006 to 2011. An imbalanced panel data of 257 NBFCs and 2374 NBFC- quarters are used as sample in this study. Generally the priority lending activities have an effect on the lending to NBFCs by banks and NBFCs lending itself. The study also found that the higher urban and semi urban presence will reduce the bank lending to NBFCs and NBFCs lending itself. Bank lending to NBFCs forms a significant proportion of their liabilities. The researchers suggest that the NBFCs must represent completeness of credit allocation in Non Metropolitan areas of our economy.

Job (2003) examined the socio economic aspects of chit schemes provided by private chit funds, cooperatives, KSFE, and informal chit funds in Kerala. The study was arguably a rare one that comprehensively studies public sector chit fund company (KSFE) along with the comparison with competitors. The researcher studied the trends and pattern of growth of chit funds in the formal sector in Kerala, assessed performance of KSFE and identified the determinants behind the preferences for joining chit funds. Other than the data collected from various secondary sources, the researcher made a survey among the customers and employees. It was to identify the motivational factors behind joining chits, to find fund utilization pattern of organization, to identify the problems of organizations and to obtain suggestions for better performance of institutions.

400 chit subscribers from four districts and 165 employees were selected as sample. BCG growth-share matrix, default revenue matrix and SWOT analysis were used as part of analysis.

Potential to provide future savings in advance, convenient and contractual form of savings and duel option for savings and borrowings are motivational forces behind joining chits. The researcher strongly advocates the need of strict enforcement of chitty Act. Utilization pattern of prize money is in the direction of productive purposes. The safety reasons and transparency are the motives behind the success of KSFE Ltd, it was better services from co operatives, and it was prompt payment that uniquely stands as critical factor for private chits.

Personal contacts and good relations with Foreman are the factors dominantly showed by informal chits.

Panicker & Seshadri, (2013) used Balanced Score Card (BSC) to evaluate the performance of a commercial bank. Balanced score card is a solution to the imperfections of single financial performance indicator that have been used till now. The research aims to contribute to BSC literature and encourage application of BSC to foreign banking sector in India. It developed a BSC and thereby evaluated performance of Standard Chartered Bank. BSC was developed to measure financial and non financial performance of the bank for the period 2009-2012. The data collected was of financial and non financial character from the bank. Five measures were selected for every perspectives, important financial ratios for financial perspectives, business per employee, growth of banking services, credit growth etc., for internal process perspective, customer complaints redressed, growth in customer savings account, growth in safety deposit, growth in current account and customer banking net promoter's score constituted for customer perspective, and number of employees, profit per employee percentage of employee appraise, percentage of employee get training and employee engagement score constituted for learning and growth perspective. It seems that the performance of the bank was improving in initial two years, and the next two years it was declining. Generally it showed an average performance.

Shanmugham & Das (2004) attempted to measure the technical efficiency of Indian commercial banking industry from 1992 to 1999. The study focused on the performance of 94 banks that belongs to four different ownerships. It considered net interest margin, non- interest income, credit and investments for analysis. Data belongs to a period of 1992 to 1999 which have taken from the statistical output of Reserve bank of India. For the purpose of measuring bank efficiency, study used stochastic frontier approach for panel data. In general, observed outputs were less than the potential outputs, due to technical inefficiency of banks. A variance in the technical efficiency to raise the interest margin can be seen among the banks and the same is time invariant. Reform measures introduced since 1992 did not helped the banks to raise the interest margin. However the banks show efficiency in raising non-interest income, investments and credit.

Sufian (2007) investigated the performance of Malaysian Non-Commercial Bank Financial Institutions (NCBFIs). He evaluated the efficiency estimates of individual NCBFIs using the non-parametric Data Envelopment Analysis (DEA) method. The studied period was from 2000 to 2004. The scale inefficiency dominates pure technical inefficiency in the Malaysian NCBFI sector.

Islam & Osman (2011) empirically examined the development impact of Non Bank Financial Intermediaries on economic growth in Malaysia. The study used time series data for a period of thirty years from 1974 to 2004. The data are obtained from the annual reports of the Central Bank of Malaysia, published sources of the individual NBFIs, International Financial Statistics and Key indicators, various issues, Asian Development Bank (ADB). The study employed bounds testing approach to co integration and error correction mechanism to investigate the existence of a long run equilibrium relationship between NBFIs and economic growth. The researchers established long run co integrating relationship between NBFIs and real per capita income. Development of NBFIs positively and significantly influences per capita income in Malaysia.

Cheng & Degryse (2007) argued that Banks had a larger impact than non banks on local economic growths. The study titled *"The Impacts of Banks and non bank financial Institutions on local economic growth in China"* considered Cobb-Douglas production function to estimate the impact of financial development on economic growth. The data employed was for 27 Chinese Provinces over the period 1995-2003. They assessed the impact of Bank and non bank financial institutions on local economic growth and found significant contribution of banks than non bank financial institutions. Banks benefited far from reforms. The development of Non bank financial institutions is much less correlated with growth.

Sibi (2014) found that gold loans businesses of banks and NBFCs helps the marginalized and vulnerable sections. However the study recommends for an effective monitoring of the activities of that intermediaries. Study was conducted using primary and secondary data. It collected primary data from 205 sample respondents- customers of some banks and an NBFC.

Thomas (2007) stdudied the deposits and lending of Commercial Banks in Kerala. He analysed the performance efficiency of commercial banks against Co-operative banks in Kerala for a period of ten years from March 1997 to March 2006. He took Thiruvananthapuram, Ernakulam and Kozhikode as representative districts. The parameters taken into account are Total Deposits, Term Deposits, Savings Bank Deposits, Current Deposits, Total Advances, Demand Loans, Cash Credits, Overdrafts, Credit-Deposit Ratio, Profitability, Non-Performing Assets and Customer Satisfaction. He found that Commercial Banks far exceeded Co-operative Banks in terms of the volume of Deposits and Advances. But the Credit-Deposit Ratio of Co-operative Banks far exceeded Commercial Banks. In terms of profitability, Commercial Banks was remarkably superior to Co-operative Banks.

Vimala (2002) studied the priority sector lending by commercial banks in Kerala. She found a lower branch expansion in Kerala. The branch expansion in the State was lower than the all India level. The percentage of rural brnaches in Kerala is less than the all India level. She cautiously points out the low CD ratio of banks in Kerala.

The low CD Ratio shows the reluctance of the banks to deploy funds for advances liberally (Joseph, 2003). The author further found that the banks which are reluctant to expand lending activities have deployed more funds in Investments in the post-reform Period. Mohanan (2006) found a significant fall in both the rate of growth of SCB branches and CD ratio in Kerala during the post-reform period.

Delay in getting loans, uncertainty and lack of security are the major factors compelling people to avail the loans from private financiers (Joseph M, 2011).

Majeesh (2012) studied the performance of the Regional Rural Banks (RRBs) in Kerala on the basis of deposits, lending, profitability, recovery and overdue, customer service and job satisfaction of employees. RRBs in Kerala have recorded a fairly good rate of growth in the lending activities. These banks have given a lion's share of their lending to the priority sector. The author selected 30 bank branches in Kerala for the study.

Damodaran (2012) studied the role of South Malabar Gramin Bank in the rural development of Northern Kerala. Vast majority of the beneficiaries of the bank have been able to create full employment for them and to some extend to others. The bank has good repute among the public and is operationally well. But the trend of the financial results, especially the profitability, is not encouraging.

Aloysius (2012) evaluated the performance of public sector and new generation private sector banks in the post-liberalised era. There is significant difference in the performance between banks, bank groups and bank sectors under all the major financial performance indicators. The researcher considered eight broad indicators such as capital adequacy, asset quality, managerial efficiency, earnings quality, liquidity, social banking growth and customer satisfaction.

Jayachandran (2008) found a significant increase in income, savings and asset aquisition among the poor after becoming members of the Self Help Groups

(SHGs) in Kerala. Signs of improvement are stronger not only in the economic aspects of the memners but also in their social as well as cultural aspects. The author personally interviewed SHG members and bank managers.

Kumar (2013) studied the role of District Co operative Banks (DCBs) in the financial inclusion in Kerala. Conventional banking practices and unfriendly attitude of the bank staffs of the District Co operative Banks in Kerala result in access exclusion, savings exclusion, credit exclusion, information exclusion and financial services exclusion. Perception of the beneficiaries of linkage banking on the services of money lenders and private bankers reflects the acceptance and suitability of informal finance among the masses. The study revealed that the influence of money lenders and private banks is at a higher level in Ernakulam district. The researcher conducted a survey among the beneficiaries of linkage banking of DCBs in Kerala.

Francis (1994) studied lease financing in India. The study examined state of leasing industry and assessed the prospects of leasing in India. It also evaluated the financial performance and examined the impact of Government regulations on leasing industry

Harikrishnan (2008) identified the issues and problems in management of receivable in vehicle financing NBFCs. The study examined the existing credit appraisal criteria and mechanism, the practice of documentation, repaying habits of borrowers and collection policies and practices. He analyzed the features and tried to identify the ways and means for better management of receivable.

ASSOCHAM (2016) noticed the increase in market borrowings of higher-rated, large NBFCs. It further identified a shift in the maturity of borrowings of NBFCs. The funding structure is changing from short-term borrowings to long-term borrowings.

Asnani (2013) argues that NBFCs are the perfect or even better alternatives to the conventional banks. According to the author, NBFCs will have to be very dynamic and constantly endeavour to search for new products and services in order to survive in this ever competitive financial market.

Gandhi (2014) evaluated the NBFCs sector and according to the author, challenge before the NBFC sector is to grow in a prudential manner. RBI's role in regulation is to enable prudential growth of this sector, keeping in view the multiple objectives of financial stability, consumer and depositor protection, and need for more players in the financial market and addressing the regulatory arbitrage concerns.

Kaushal (2016) found a remarkable improvement in the profitability and financial health of NBFCs. He examined the performance of NBFCs during the post liberalisation period.

Saravanan & Haneef (2011) dealt with SWOT matrix developed on SWOT profile to develop strategies for NBFCs. NBFCs can themselves take steps to minimise their weakness and face all threats by making better use of their strengths and opportunities, identified by them. The areas where active intervention is required, according to the authors, is the area of debt recovery for which the support and encouragement of the government is required.

Vadde (2011) analysed the performance of non-government financial and investment companies during the year 2008-09. The study was based on the annual accounts of 1211 companies. Operating results of the select companies declined along with diminishing profitability during 2008-09. The growth in expenditure was mainly driven by the growth in interest payments. External source continued to be the major source of finance.

Devi (2014) studied the funding sources, investment strategies and investment philosophy of NBFCs in India for the period of 2009 to 2013. She found an exceptional performance of NBFCs in 2012. The author pointed out the leverage practice of NBFCs through non-convertible debentures.

Ranjan Singh (2014) analysed the evolution, growth and development of NBFCs in India. The author commented on the successful emergence of these financial institutions within a short span of time.

Thangam & Salini (2016) identified the financial strength and weakness of the Kerala State Financial Enterprises Limited, a systemically important NBFC in Kerala. The company was facing a lot of risks in the form of competition, less profitability etc. They considered five years data starting from 2011.

Kumar & Kattookaran (2016) conducted a study on shadow banking in Kerala. The authors analysed the functional aspects of three major NBFCs-ND-SI in Kerala for the period 2010-2014. The uneven movement in the financial leverage, development in maturity transformation and opaque regulatory measures nurtures shadow banking in Kerala. Strong correlation established the role of shadow banks in Gross State Domestic Product.

Kumar & Kattookaran (2016) evaluated maturity transformation practices by NBFCs in India. Recent practices of NBFCs were analysed with the data of two major NBFCs in Kerala. It was found that, under the loosened regulations, NBFCs tend to shorten the maturity. This shortening is made by advancing short term loans with lonag term liabilities.

Kumar & Kattookaran (2016) criticised the role of commercial banks in providing assistance to agricultural value chains in India. The authors analysed the direct and indirect finance available to agriculture. The study recognised the viability of NBFCs in mediating value chains finance in India.

Kumar & Kattookaran (2017) evaluated the significance of demand and time liabilities of scheduled commercial banks on total credit at different periods. The analysed periods were nationalisation, post liberalisation and post crisis. During post crisis period, more long term liabilities were converted into current assets.

Kumar, Reddy, & Dhanunjaya (2016) went through the growth and development scenario of NBFC in India. Through their scrutiny, they reveal that the bankig sector provides fund only to the 40 percent of trading sector and the rest is financed by NBFCs. They infer that NBFCs in India have come to play a major role in discharging modern and diversified finacial services like hire purchase, lease financing etc. They conclude that the role of NBFCs in the Indian economy cannot be denied.

Jency (2017) tried to learn the performance of non-banking financial institutions. She has found that the NBFC sector assumes a critical role in financial inclusion as it caters to a wide range of financial activities particularly in areas where commercial banks have limited penetration. Moreover, the profitability of NBFCs has risen significantly than that of commercial banks.

2.3 Major Findings

Table 2.1 consolidates major findings from the related literature survey

Table 2.1

Major Findings from Literature Survey

SL No	Author and Year	Finding
1	Rajan & Zingales (1998)	Financial development reduces the cost of external finance to firms
2	Shittu & Ibrahim (2012)	Financial intermediation has a significant impact on the economic growth
3	Outreville (1999)	Human capital and socio-political stability are important factors explaining the level of financial development
4	Carey, Post, & Sharpe, (1998)	Existence of specialization in private market corporate lending
5	Ratnovski (2013)	Leverage allow an unregulated bank to choose insufficient liquidity buffers and transparency

6	Flannery, Kwan, & Nimalendran (2013)	Being transparent during normal times is not sufficient
7	Kupiec & Ramirez (2013)	Bank failures aggravate commercial non-bank failures
8	Anginer, Kunt, & Zhu (2014)	Robust negative relationship between bank competition and systemic risk
9	DeYoung & Torna (2013)	Bank failure is increased with asset-based nontraditional activities
10	Jonghe & Öztekin (2015)	Capital structure of a bank reflects the environment it operates
11	Goel, Song, & Thakor (2014)	High leverage among borrowers is positively correlated with high leverage among banks
12	Balmaceda, Fischer, & Ramirez (2014)	Effects of financial liberalisation depend on the market structure of domestic banks prior to liberalisation.
13	Popov (2014)	Lack of access to finance is associated with significantly lower investment in on-the-job training (Human Capital Formation)
14	Oliver, Ruano, & Fumás (2013)	Productivity growth is attributed to bank's practices
15	Carrasco & Salgado (2014)	Coordinated strategic defaults are a source of financial fragility
16	Drehmann & Tarashev (2013)	Interconnectedness is a key driver of systemic importance
17	Carlson, Shan, & Warusawitharana (2013)	Effect of capital ratio on bank lending is nonlinear
18	Bernardo & Welch (2013)	Individual financial firms cannot determine their optimal capitalisation in isolation
19	Beck, Jonghe, & Schepens (2013)	large cross-country variation in the relationship between bank competition and bank stability
20	Gauthier, Lehar, & Souissi (2012)	Financial stability can be substantially enhanced by implementing a systemic perspective on bank regulation
21	Mehta & Mehta (1991)	In India, the middle and upper income families are the main beneficiaries of housing finance efforts.
22	Sakyi et al. (2014)	Lower risk levels lead to an increase in performance of NBFIs
23	Padmini (1997)	Lack of professionalisation and poor management practices at District Co operative Banks in Kerala
24	Pastor, Lovell, & Tulkens (2006)	Variation in the ability of branch offices
25	Staikouras et al.	Operating performance of banks is positively

	(2007)	related to loan quality and the asset size
26	European Central Bank (2010)	ROE may be less of a performance benchmark than a communication tool in the relationship between banks and markets
27	Hosen, Rahman, & Dutta (2013)	A reasonably better performance of the industry (NBFIs)
28	George & Kurian (2014)	NBFCs heavily depends on commercial banks
29	Rioja & Valev (2004)	Intermediate region witnessed a large, positive effect in growth driven by financial development
30	Fase & Abma (2003)	For the growth of GDP, Capital investment and aggregated financial assets stationary is warranted
31	Acharya, Khandwala, & Oncu (2013)	Priority lending activities have an effect on the lending to NBFCs by banks and NBFCs lending itself
32	Job (2003)	Duel option for savings and borrowings are motivational forces behind joining chits
33	Panicker & Seshadri (2013)	An average performance of Banks
34	Shanmugham & Das (2004)	Observed outputs were less than the potential outputs, due to technical inefficiency of banks
35	Sufian (2007)	The scale inefficiency dominates pure technical inefficiency in the Malaysian NCBFI sector
36	Islam & Osman (2011)	Development of NBFIs positively and significantly influences per capita income in Malaysia
37	Cheng & Degryse (2007)	In China, Banks had a larger impact than non banks on local economic growths
38	Sibi (2014)	In Kerala, Gold loans businesses of banks and NBFCs helps the marginalized and vulnerable sections
39	Jeromi (2007)	In Kerala, informal financial institutions have links with formal financial institutions
40	Francis (1994)	Prospects of leasing in India
41	Harikrishnan (2008)	Identified the issues and problems in management of receivable in vehicle financing NBFCs
42	Asnani (2013)	NBFCs are the perfect or even better alternatives to the conventional banks.
43	Gandhi (2014)	Challenge before the NBFC sector is to grow in a prudential manner
44	Kaushal (2016)	Remarkable improvement in the profitability and financial health of NBFCs
45	Saravanan & Haneef (2011)	NBFCs can themselves take steps to minimise their weakness and face all threats by making better use of their strengths and opportunities,

		identified by them
46	Vadde (2011)	The growth in expenditure of NBFCs was mainly driven by the growth in interest payments
47	Devi (2014)	An exceptional performance of NBFCs in 2012
48	Ranjan Singh (2014)	Commented on the successful emergence of these financial institutions within a short span of time
49	Thangam & Salini (2016)	Identified the financial strength and weakness of the Kerala State Financial Enterprises Limited, a systemically important NBFC in Kerala
50	Kumar & Kattookaran (2016)	There is shadow banking in Kerala
51	Kumar & Kattookaran (2016)	Under the loosened regulations, NBFCs tend to shorten the maturity
52	Kumar & Kattookaran (2016)	Recognised the viability of NBFCs in mediating value chains finance in India
53	Kumar & Kattookaran (2017)	During post crisis period, more long term liabilities were converted into current assets

2.4 Research Gap and Conclusion

In Kerala, there are a number of NBFCs doing businesses in gold loans. Large sized NBFCs' linkage with the banks deserves further study. Apart from the direct beneficiaries' point of view, it is necessary to evaluate the performance of large sized NBFCs from other perspectives also. It is necessary to study the growth and performance of large sized NBFCs from the point of policy objectives and leverage. The literature survey reveals a research gap in these aspects.

Increase in the volume of financial intermediation results in the availability of cheap finance and thus contributes to economic growth. Specialization in the financial service is, thus, justified since it may increase the volume of financial intermediation. The constructive role of non banking financial institutions is well documented in literature. Further, relationship between banks and non banks lead to systemic risk and failures of banks are related with the failures of non banks. These non banks try to reduce risk, a determinant of good performance. In addition to these things, other financial intermediaries' performance is criticized on account of lack of professionalization and poor management practices. Since access to finance is associated with growth and development, specialized financial services of non banking finance companies would be entertained. The main problems, as pointed out by literature, are leverage and interconnectedness. These non banking finance companies perform bank and non bank activities. Main bank activities are maturity transformation and leverage.

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