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A STUDY ON ASSETS AND LIABILITIES MANAGEMENT IN BANKING INDUSTRY

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Abstract

Asset-Liability Management (ALM) *can be termed as a risk management technique designed to earn an adequate return while maintaining a comfortable surplus of assets beyond liabilities. It takes into consideration interest rates, earning power, and degree of willingness to take on debt and hence is also known as Surplus Management.*

But in the last decade the meaning of ALM has evolved. It is now used in many different ways under different contexts. ALM, which was actually pioneered by financial institutions and banks, are now widely being used in industries too. The Society of Actuaries Task Force on ALM Principles offers the following definition for ALM: "Asset Liability Management is the on-going process of formulating, implementing, monitoring, and revising strategies related to assets and liabilities in an attempt to achieve financial objectives for a given set of risk tolerances and constraints." The need of the study is to concentrates on the growth and performance of Company and to calculate the growth and performance by using asset and liability management.

The burden of the Risk and its Costs are both manageable and transferable. Financial service firms, in the addition to managing their own risk, also sell financial risk management to others. They sell their services by bearing customers financial risks through the products they provide. A financial firm can offer a fixed-rate loan to a borrower with the risk of interest rate movements transferred from the borrower to the. Financial innovations have been concerned with risk reduction than any other subject. With the possibility of managing risk near zero, the challenge becomes not how much risk can be removed.

Keywords: Asset Liability Management, Risk Management, Financial Risk Management.

Introduction

Asset Liability Management (ALM) is a strategic approach of managing the balance sheet dynamics in such a way that the net earnings are maximized. This approach is concerned with management of net interest margin to ensure that its level and riskiness are compatible with the risk return objectives.

If one has to define **Asset and Liability management** without going into detail about its need and utility, it can be defined as simply “management of money” which carries value and can change its shape very quickly and has an ability to come back to its original shape with or without an additional growth. The art of proper management of healthy money is **ASSET AND LIABILITY MANAGEMENT (ALM).**

The Liberalization measures initiated in the country resulted in revolutionary changes in the sector. There was a shift in the policy approach from the traditionally administered market regime to a free market driven regime. This has put pressure on the earning capacity of co-operative, which forced them to foray into new operational areas thereby exposing themselves to new risks. As major part of funds at the disposal from outside sources, the management are concerned about **RISK** arising out of shrinkage in the value of asset, and managing such risks became critically important to them. Although co-operatives are able to mobilize deposits, major portions of it are high cost fixed deposits. Maturities of these fixed deposits were not properly matched with the maturities of assets created out of them. The tool called **ASSET AND LIABILITY MANAGEMENT** provides a better solution for this.

Literature Review

Prof. (Dr) Kanhaiya Singh (1), He has found that there are serious attempts by banks to minimize the asset liability mismatch since the implementation of RBI guidelines in 1997. Banks have made adequate follow up and monitoring 97 arrangements at different levels. The study suggests much scope for banks to improve profitability by monitoring and reducing short term liquidity. The further break up of data into smaller rime buckets indicates negative gap. To fill the short term liquidity gap, banks resort to market borrowings at higher rate of interest which reduces interest margin and profitability of banks. Banks have greater scope to manage interest rate risk through various techniques.

The Basel II norms (2004) (2), focused on international standard for the amount of capital to be maintained by banks as a safeguard against various risks they come across in the banking business. Basel II proposed setting up rigorous risk and capital management requirements designed to ensure that a bank holds capital reserves appropriate to the risk the bank exposes itself to through its leading and investment practices. It infers that the greater risk to which the bank is exposed, the greater the amount of capital the bank needs to hold to ensure solvency and stability.

Charumathi (2008) (3), She has studied assets and liabilities management of banking sectors; she focused on financial statement of banks and impact of interest rate. She has evaluated interest rates which create liquidity risk. In her study on interest rate risk management concluded that balance sheet risks include interest rate and liquidity risks.

Rajan and Nallari (2004) (4) used canonical analysis to examine asset-liability management in Indian banks in the period 1992-2004. According to this study, SBI and associates had the beat asset-liability management in the period 1992- 2004. They also found that, other than foreign banks, all other banks could be said to be liability-managed. Private sector banks were found to be aggressive in profit generation, while nationalized banks were found to be excessively concerned about liquidity.

Vaidya and Shahi (5), suggested in particular that interest rate risk and liquidity risk are two key inputs in business planning process of banks. A linear programming model for assessing asset liability management in banks, - ICFAI Journal of risk management, year-2011

Objectives of the Study

1. It is to study the concept of ASSET &LIABILITY MANAGEMENT in the selected organization.
2. It is to study the Process of CASH INFLOWS and OUTFLOWS in the selected company.

Research Methodology

The study of **ALM Management** is based on two factors.

1. Primary data collection.
2. Secondary data collection.

Primary Data Collection

The sources of primary data were

- The chief manager – **ALM** cell
- Department Sr. manager financing & Accounting
- System manager- **ALM** cell

Secondary Data Collection

Collected from books regarding journal, and management containing relevant information about ALM and Other main sources were

- Annual report of the **selected bank**
- Published report of the **selected bank**
- **RBI** guidelines for ALM**.**

B.Inflows	**Classification into time buckets**
1. Cash	1-14 days bucket.
2. Balance with others (i) Current Account	(i) Non-withdraw able portion on account of stipulations of minimum balances may be shown Less than 1-14 days bucket.
3. Investments (i) Approved securities ii) Corporate Debentures and bonds, CDs and CPs, redeemable preference shares, units of Mutual Funds (close ended). Etc.	(i) Respective maturity buckets excluding the amoun required to be reinvested to maintain **SLR** (ii) Respective Maturity buckets. Investments classified as NPAs Should be shown under 2-5 years bucket (sub-standard) or over 5 Years bucket (doubtful and loss).
4. Advances (performing / standard) (i) Bills Purchased and Discounted (including bills under DUPN) (ii) Cash Credit / Overdraft (including TOD) and Demand Loan component of Working Capital.	(i) Respective Maturity buckets. (ii) they should undertake a studyOf behavioral and seasonal pattern of a ailments based on outstanding and the core and volatile portion should be identified. While the volatile portion could be shown in the respective maturity bucket. The core portion may be shown under 1-2 years bucket. (iii) Interim cash flows may be shown under respective maturity Buckets.

Data Interpretation

Head of Accounts	Classification Into Time Buckets
A.OUTFLOWS	
1.Capital, Reserves and Surplus	Over 5 years bucket.
2.Demand Deposits (Current & Savings Deposits)	Demand Deposits may be classified into volatile and core portions, 25 % of deposits are generally withdraw able on demand. This portion may be treated as volatile. While volatile portion may be placed in the first time bucket i.e., 1-14 days, the core portion may be placed in 1 -2 years, bucket.
3. Term Deposits	Respective maturity buckets.
4. Borrowings	Respective maturity buckets.
5. Other liabilities and provisions (i) Bills Payable (ii) Inter-office Adjustment (iii) Provisions for NAPs a) sub-standard b) doubtful and Loss	(i) 1-14 days bucket (ii) Items not representing cash payable may be placed in over 5 years bucket (iii) a) 2-5 years bucket. b) Over 5 years bucket .

Keywords used
CDs: Certificate of Deposits.
CPs: Commercial Papers.
DTL PROFILE: Demand and Time Liabilities.
Inter office adjustment: (a) Outflows: Net Credit Balance **(b) Inflows:** Net Debt Balances
Other Liabilities: Cash payables, Income received in advance, Loan Loss.

Suggestions

1. They should strengthen its management information system (MIS) and computer processing capabilities for accurate measurement of liquidity and interest rate Risks in their Books.
2. In the short term the Net interest income or Net interest margins (NIM) creates economic value of the which involves up gradation of existing systems & Application software to attain better & Improvised levels.
3. It is essential that remain alert to the events that effect its operating environment & react Accordingly in order to avoid any undesirable risks.

Findings

1. **ALM technique** is aimed to tackle the market risks. Its objective is to stabilize and improve Net interest Income (**NII) i.e. 13800.29 for 2018**.
2. Implementation of ALM as a Risk Management tool is done using maturity profiles and GAP analysis and Gap is 24.84% for 2015-16

3. The profit After Tax has came **1522.93** Cr in 2017 in Current year because of slope in Industry.

4. The PAT is in an increasing trend from 2012-2013 because of increase in sale prices and also decreases in the cost of sale. In 2015 and 2017 even the cost of service has increased by 2.48% because of higher sales volume PAT has increased considerably, which leads to higher EPS, which is at 47.01% in 2016.

5. The company also increased considerably which investors in coming period. The company has taken up a plant expansion program during the year to increase the production activity and to meet the increase in the demand.

Conclusion

The purpose of ALM is not necessarily to eliminate or even minimize risk. The level of risk will vary with the return requirement and entity's objectives. Financial objectives and risk tolerances are generally determined by senior management of an entity and are reviewed from time to time. All sources of risk are identified for all assets and liabilities. Risks are broken down into their component pieces and the underlying causes of each component are assessed. Relationships of various risks to each other and/or to external factors are also identified. Risk exposure can be quantified

1. Relative to changes in the component pieces,
2. As a maximum expected loss for a given confidence interval in a given set of scenarios,
3. By the distribution of outcomes for a given set of simulated scenarios for the component piece over time.

Regular measurement and monitoring of the risk exposure is required. Operating within a dynamic environment, as the entity's risk tolerances and financial objectives change, the existing ALM strategies may no longer be appropriate. Hence, these strategies need to be periodically reviewed and modified. A formal, documented communication process is particularly important in this step.

References

SI.No	Author name	Book Name	Edition	Publishers
1	Jonathan Berk, Peter Demarzo , Ashok Thampy	Financial Management		
2	M.Y. Khan , Macgraw Hill	Indian Financial System	5th	
3	P.M.Dileep Kumar	Management Research Magazine		
4	Ross Westerfield Jaffe	Corporate Finance	7th	TMH Publishers
5	Thomson South –Western	Financial Management Theory and Practice	10th	