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## **ALM And Liquidity Risk Of Scheduled Commercial Banks With Special Reference To Emerging Trends And Need Based Banking Practices In India**

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### **Abstract**

Asset liability administration is a very important risk administration tool for banks. The Bank must be more efficient in dealing with Asset Debt Management in order to improve its performance. The purpose of an asset debt management is not only to monitor risk but also to provide better performance. The security that comes with the help of asset debt management also opens up the possibility of increasing total value. In order to study the assets and liabilities of the bank and to measure the impact of Assets Debt administration on banking production using the Ratio Analysis. The liberation and international trade of the Indian economy has bring a lot of change to the Indian monetary market. There is arise in the point of competition in the monetary market because of declining interest rates control, operational changes plus technological changes. India's banking division is facing a wide range of risklike financial risk, credit risk, marketplace risk, monetary risk, interest rate risk and so on. The magnitude and nature of these risk has changed above time and it is extremely significant to know and manage these risk as they straightly affect the profitability and performance of the bank. Banks have come up with latest strategies plus methods for calculating as well as managing these risk. Asset Management (ALM) is the most significant method currently used in the bank. ALM is a risk management tool for bankruptcy due to differences in assets and liabilities. It is a complete and effective way to monitor, evaluate and manage the various risks of the banking sector. Liquidity is the bank ability to finance asset development as well as include both predictable as well as unanticipated amounts of liability and security obligation at reasonable cost and without undue loss. From a banking perspective, a lack of funding, or the ability to finance inflation and to meet obligations in a timely manner, is serious to the ongoing operations of banking system. careful financial management as part of the banking

risk management ensures a strong and sustainable banking division. Proper liquidity risk administration help to make sure that the bank is able to meet up its liability as it declines and reduce the chances of a liquidity. This paper basically seeks to understand the trends and processes that emerge in asset management and financial risk to commercial banks.

Keywords- Asset Liability Management, Liquidity Risk, Banking Division, Indian Financial Market, Liberalization and Globalization.

### **Introduction of the Study**

Asset plus Credit Management (ALM) is a practice use by financial institution to reduce the fiscal risk of asset and liability payments. ALM strategies use a mixture of disaster hazard administration and financial preparation and are frequently use by organization to administer long-term risk that may occur as a result of changing conditions. Asset performance and debt management can include a number of factors, together with strategic asset portion, risk decrease, and regulatory and financial frameworks. By successfully comparing assets and liabilities, financial institutes are missing with an unmanaged amount to increase investment profits and increase profits.

In fact, asset administration is a method for financial institution to deal with risk arising from asset differences and liabilities. In many cases, the variance is the effect of changes in the monetary situation, like changes in interest rate or financial wants. The complete ALM framework focus on long-term sustainability and profitability by maintaining liquidity requirements, managing credit excellence, and ensure sufficient operating costs. not like other risk management processes, ALM is an integrated system that use frameworks to manage the whole balance sheet of an organization. ensure that possessions are invested effectively, plus debt is reduced over time.

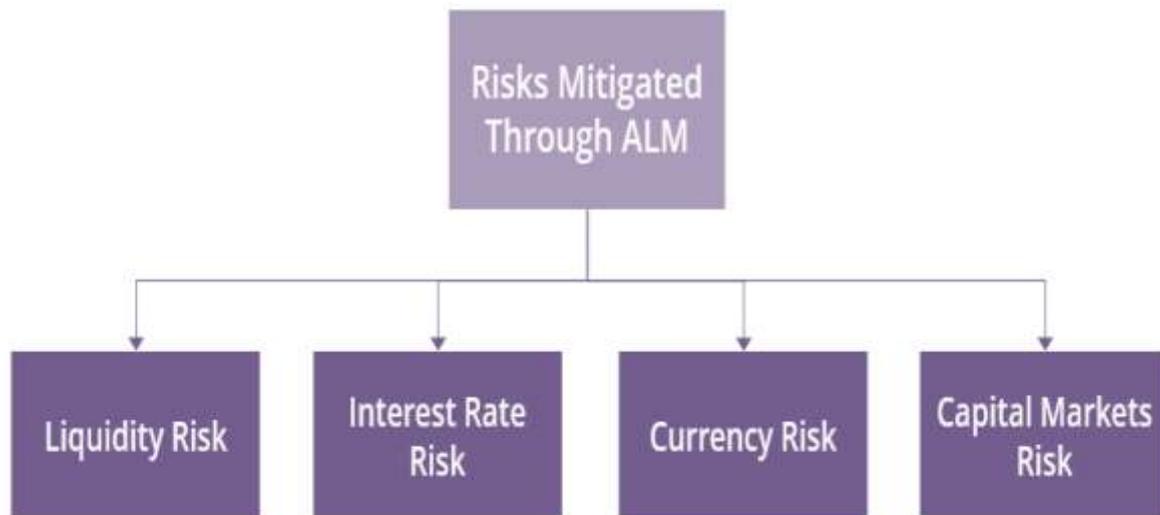
conventionally, financial institution dealt with risk independently depend on the kind of risk concerned. With the development of the monetary system, however, it is now seen as old-fashioned approach. ALM processes focus on asset administration and risk reduction on large scale, addressing are alike markets, financial transactions, and credit risk. Unlike conventional risk administration processes, ALM is a continuing risk monitor system to make sure that the association is not tolerant of risk and complies with regulatory framework. The

acceptance of ALM procedures extend to the entire monetary sector and be able to be obtained from organization, such as bank, pension finances, asset manager, and assurance company.

Using ALM framework can offer profit to many organization, as it is significant for organization to fully recognize their asset and liability. One of the advantages of starting ALM is that the institute be able to administer its debts in a systematic way to improved preparation for future uncertainty. Using ALM frameworks allows an entity to recognize and determine the risk involved in its balance sheet and minimize the risk arise from asset differences and liabilities. By combining asset and liability strategies, financial institution can attain greater competence and profit while diminishing risk.

The evils of ALM include the challenge connected with using the right structure. Due to the large difference among the various organization, there is no standard structure that be able to be applied to every organization. Therefore, company will need to create a separate ALM structure to capture precise objective, risk level, and regulatory limits. Also, ALM is a long-term plan that combine forward-looking predictions with data sets. Information may not be voluntarily obtainable to all organization, and still if it is obtainable, it should be converted into measurable arithmetical actions.

ALM is an integrated system with the aim to manages the entire organization balance sheet. It involve collaboration among many diverse department, which can be difficult and time consuming.



Liquidity threat Management and Asset Liability Management integrate banking processes and strategies:

- Ensuring that the balance sheet receives the required interest edge, without revealing the institute to unnecessary risk arising from interest rates fluctuations.
- arrangement and edit a balance sheet by means of the appropriate combination of asset and liability, in order to improve threat / return institutional profile going ahead.
- Assess its capability to meet up cash flow and security requirements (below both normal and pressured circumstances) with not having a negative impact on everydayoperation or its overall monetaryarrangement.
- Minimize that threat by developing strategy and taking suitable measures intended to make sure that the required finances and security are obtainable if required.

Balance sheet administration, through planned ALM, is the procedure of administering and developing asset, liability and cash flow to meet upobligation. Active ALM not only protects financial institution from the risk of declining interest rates and reduced benefits, but also provides an opportunity to improve value by increasing revenue against threat. Therefore, it

includes a lot of portfolio statistics, statistics and efficiency. Based on a collection of real-time recording tools, forecasting, interest rate dimension, pressure testing, model and behavioral statistics.

### **Review of Literature**

Baser, (2013), aims to know that financial performance is analyzed using ROA, ROE, ROAA and ROAE. Guthua, (2013), shows that profit has a helpful effect on credit risk while the presence of effective management has a unconstructive impact on credit threat. (Tripathi & Tandon, n.d.), aims to assess and evaluate the liquidity risk that Islamic banks are exposed to compared to conventional banks and alliances in the case of 145 commercial banks during the period 1996–2015. KOLI (2001), the study adopted the research philosophy of positivism and applied both descriptive and causal research projects. Muraleedharan (2014), aims to clarify the emergence of bank financial statements, identify potential structural variations and patterns, as well as the disclosure of trends, at risk of insolvency. The Dash & Pathak (2009) study aim to examine how administration ability, political pressure, and monetary pressure effect Iranian banking possessions and debt administration. Ramesha (2007), the purpose of this article is to clarify the factors that affect the functioning of public sector banks in India and the relationship between bank-specific decisions and the functioning of public sector banks. Shabnam 2019, points out that in the public sector banks the strategy of consolidation is based on credit structure, but in the case of private corporate banks the picture is the opposite. Considering the standard balance sheet approach, research also reveals that investments, investments, development positions vary widely from private banks compared to public sector banks.

### **Need and Importance of Study**

In a fast-growing economy like India, the maintenance and development of an efficient banking system is essential. The banking system is the backbone of any country's economy because the stability of the financial system leads to the growth of the industry as well as its economy. For banks to be successful, a sound bank account management strategy is essential. The RBI has introduced an ALM approach for banks and all financial institutions to utilize their resources more efficiently, in order to increase returns by reducing risk. Using the

canonical integration method, research investigates assets as well debt management strategy of Indian state-owned banks and the private sector. Research shows that in the public sector banks the strategy of consolidation depends on the credit structure, but in the case of private corporate banks the picture is the opposite. Considering the standard method of balance sheet, research also shows that savings, deposits, development positions are very different from private banks compared to public sector banks.

### **Research objectives**

1. To study Asset liability administration and liquidity risk practice followed in commercial banks
2. To analyze the emerging trends followed for asset liability administration and liquidity risk practice in banking sector.
3. To examine the measures financial management and risk management in banking sector.

### **Research Methodology**

The paper takes into consideration secondary data which is collected with the help of banking journals, websites, papers, books, magazines and so on.

### **Findings and Suggestions**

Asset Management (ALM) play a significant position in integrating the various trade lines into a financial institute. Managing liquidity plus balance sheet is essential for a financial institution to support and sustain its operation. It is as well important for the seamless enlargement of the balance sheet in a gainful way. In recent period, even large international financial institution have been in dire financial straits and in dire need of external intervention to survive. This has led regulators to attach greater significance to the new events needed to make sure sound financial management.

The core function of ALM and liquidity risk administration facilitate financial institution to control and alleviate risk inside acceptable level. Of course, financial institution are more and more tending to make this procedure profitable. Financial institution lend in various conditions and maturity tenor. Apart as of equity and retain profits, the standard maturity of borrowers

and debtors is usually in the small to medium term. On the property surface, maturity often exceeds a wide range from overnight to as long as the mortgage can work. A financial institution is often essential to contribute in short, average and long term loans based on the type of financial product offered plus the section of the marketplace in which the bank operate.

### **ALM main function: Managing Interest Rate, Property Gap and Liquidity**

The main function of ALM is to control maturity and variance while controlling rate of interest risk within the authorization determined by Asset Credit Committee (ALCO). Typical activities initiated by the ALM team will include a healthy cash transfer (FTP) system and careful management of property spaces, interest rate sensitivity, payment payments and full ALCO reporting. In fact, the work of ALCO is central to the work of ALM and serves as a reviewing and authoritative authority in a number of important decisions including the composition of the balance sheet, gap study, financial sufficiency estimates and on top of all effective balance sheet administration.

### **ALM structures**

Considering all these factors, the institution should consider dealing with ALM with appropriate performance and expertise. ALM solution building blocks can include:

#### **Cash flow engine**

An important feature of ALM involves predicting and producing future cash flow depend on historical information and predictable conditions. A time-tested cash flow engine that can model a variety of monetary product in and out of the Balance Sheet is an integral fraction of the ALM resolution.

#### **Combined data model**

have a pre-defined data model, precise to financial products and time-tested data speeds up accomplishment by offering a start-up. In addition it help to amplify and use the most comprehensive data in a wide range of statistics other than ALM. This is especially important considering that the data for the entire business timeline at the grainy level is store in our analysis systems in excess of time.

#### **Market prices and economic conditions**

Explain the external economic indicators and explain the conditions of interest rate and climate change. Keep separate economic perspectives to rapidly build up other forecasts plus check the balance sheet balance below other areas.

### **Determination and stochastic examination**

There be two broad ways for making ALM predictions. In the decision-making process, the user make clear assumption about interest rate actions and predicts interest rates as well as exchange rate on a variety of conditions and dissimilar term point. In the stochastic case, the weather values are model by means of the Monte Carlo technique of simulation and productivity and then produced at preferred self-belief interval.

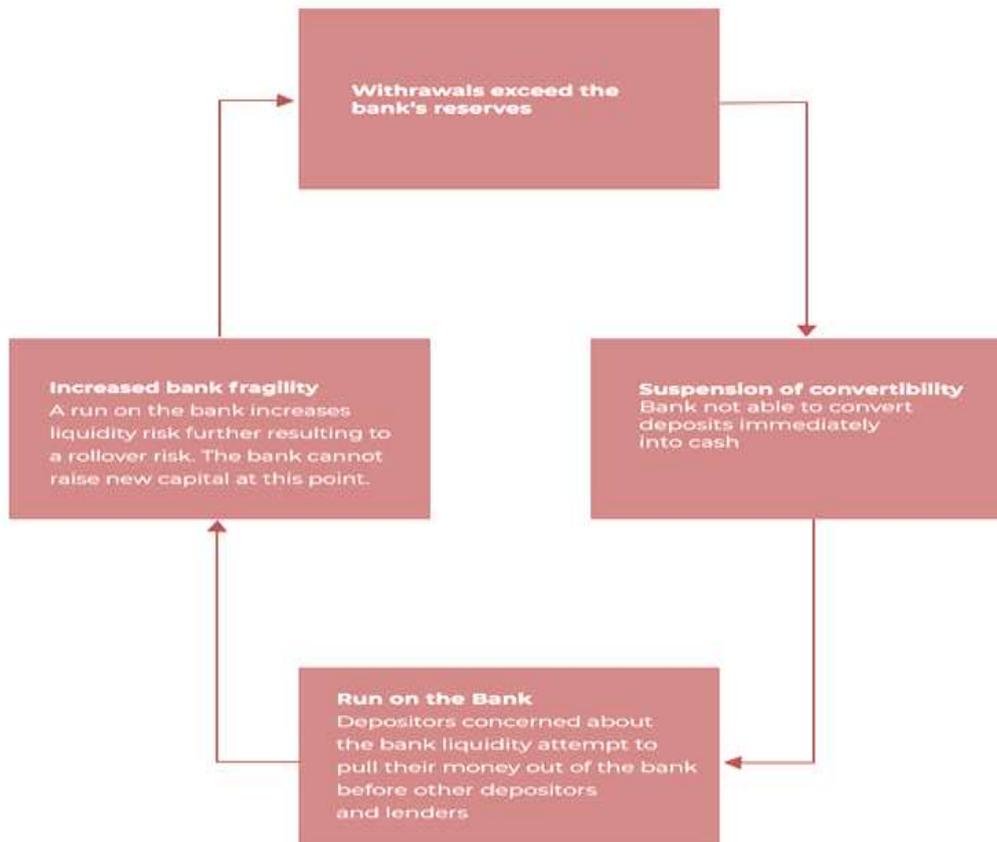
### **Behavioral modeling**

Contract behavior alone is not enough to illustrate a balance sheet. It is important to consider the maturity of a behavior based on historical perception so that cash flow forecasts are more dependable plus consistent with the indicated behavioral trend. It is as well potential to create a model of ethical styles using sure additional plus not obligatory infrastructure mechanism.

### **Powerful analytical reporting**

Find solutions with pre-integrated business intelligence with the systematic data model mentioned over to examine and account the results of cash flows and monetary accounting.

## Liquidity - Dynamics of a Bank Run



### Emerging trends in the Liquidity Management Guidelines

regulator in a lot of nations attach improved importance to expenditure administration and its effect on ALM and transfer rates. There is a growing awareness that although different types of risks and exposure may contribute to the financial emergency in a lot of ways, the lack of funding, or the lack thereof, has had a significant impact on the end of financial institution. There is a school that believe that institution like Lehman would still be alive if they were given money and extended life.

Regulators such as the Financial Services Authority (FSA) are quick to approach up with strategy that outline a fresh financial structure. The new regulatory framework include conditions and considerations, revise and latest strategy for debt consolidation and new reports to banks. The revise approach focuses not only on how thing are going in a single bank but regulators appear to be more concerned in looking at probable system risk and investment

packages to anticipate and prevent risky events before they become risky.

The liquidity management framework influences sub-FTP speculation as well. It be a general practice in various banks to install a liquidity premium over an FTP support. Financial institution currently attach significance to determine payment premium and review processes.

The Dodd-Frank Act faced a crisis 'too great to fail' in the sense that going ahead tends to allow bank to finalize their affairs in an orderly manner rather than allowing governments to hurry to release them with taxpayer 'money. This means that in spite of the costs connected with the increase in spending budgets, there is an undisputed wisdom in ensuring that bad credit locks for bad days are conditions of long and continuous pressure. The financial framework requires financial institution to comprise a sound ALM and a risk management arrangement, and for bank to obey with the latest law effectively and on time.

### **Financial Needs**

Revised monetary policy seeks to address short-term or short-term funding shortfalls. The revised regulations require bank to hold sufficient funds to continue to exist a 30-day crisis. This rule is a 'watch' until 2015 and will be considered for any unintentional penalty. Long-term liquidity is required to be address by a new set of necessities that look for to line up asset and liability. The fixed budget, although it has returned to the drawing panel, will reappear in its efficient form.

### **Pressure Test**

Periodic stress test is essential to establish levels of resilience and to simulate effective remedial actions in the event of a disaster. The liquidity risk administration clarification opens the way to shock sheet balance below a variety of conditions and speculation. An important part of a pressure test is to ensure that the assumptions are properly analyzed in accordance with expected and variable facts and that liquidity cuts are considered under stressful conditions.

ALCO rules and regulations have made it important for businesses to replicate the bank and to assess for liquidity in a stressful environment. This framework allows the bank to visually take steps to protect liquid assets and also practice the use of emergency planning.

### **Behavior Model**

Behavioral modeling and ethical speculation are reviewed by other financial institutions to confirm and evaluate the ongoing consistency of behavioral assumptions that were used in the past. Behavioral speculation deals with the assumption of basic cash flows and non-essential components in immature or non-maturing accounts, roll-over and forestallment actions. The dependability and correctness of ALM information and their reliability for predictive gap purpose, estimated cash flows and balance sheet arrangements are based on reasonable assumptions under those factors.

### **Counterbalancing**

The valuation strategy includes one or more measurement areas that include firefighting for sale and fixed asset, the formation of new residences, the removal of obtainable properties and the promotion of new deposit or loan. The effect of the measurement plan on revenue gap is assess and developed further. In addition, a number of measurement strategy are allowable to be define in the similar cash flow reporting report so that banks can identify and implement the appropriate approach as part of the emergency financing program.

It is noteworthy that strong asset management ultimately becomes the basis for a complete balance sheet of balance sheet. It is probably not an overstatement to say that ALM processes, FTP and profit preparation are all eventually reflected in balance sheet preparation and this may alter the way business view preparation, thus chief to faster also more efficient balance sheet management.

More than ever, voters in financial institution are becoming more and more conscious of the risks and assets of capital in the growing business, and they realize that it pay to focus on increasing profits even as developing capital needs. Bank managers would like to ensure that in addition to financial planning and ALM team, participants in every line of business becapable to inform the price of money.

### **Liquidity threat Management Measures and ALM**

To establish an efficient liquidity risk management plus ALM system in organization, follow these three step:

1. Set up a risk analysis structure, maximizing capital and balancing market and financial

events.

- reduce the effect of market shock, and look for improved arbitrage opportunity, by analyze the effect of cost and financial changes in real time in order to act more accurately.
- Quickly find improved solutions for your company's costs and financial needs by assessing market shortages and conditions for full development using analytical scenarios, which are highly sought-after depend on the most complex portfolio, position and tools crossways all long-term horizon.

2. administer your information.

- Get a one-stop perspective on strong interest rates and earnings risk by combining the newestmarketplace information, collection reviews, cash backplus cash market perspective on a daily basis.

3. incorporate risk management process

- The number of complex portfolio and asset curriculum by combining collection measurement and situational investigation in one place. Also take a quick look at the potential impact of future markets and trends in money laundering.

### **Principles of financial administration and risk administration The main purpose of managing and managing cash flow risk**

- The bank is accountable for administering the risk of financing. The bank should set up a strong credit risk administration structure that make sure enough cash flow, as well as a cushion of high-quality liquid asset, to withstand a wide variety of stress actions, counting those connecting the loss or damage of both secured and unsecured sources. . Managers should assess your suitability for both the disaster risk management framework and its financial position and must take immediate action if the bank is short of funds to guard investors and minimize potential harm to the financial structure.

- The bank must make it clear that it is tolerant of the cash flow that is suitable for its trade approach and its function in the monetary system.
- Managers must develop a credit risk management strategy, policy and procedures in line with risk patience and make sure that the bank maintain enough funds. Senior executives must continue to review information on banking financial progress and report to the panel of director regularly. The board of directors of the bank should review and endorse strategies, policies and procedures related to cash management at least yearly and make sure that superior executives manage credit risk efficiency.
- The bank must integrate the cost of debt, the benefits and risks to the internal finance, the operating rate and the process of authorizing a new product for all important business actions (both on the balance sheet and externally), thereby aligning individual risk encouragement. tradeline and exposure to liquidity risk their activities that affect the entire bank. Evaluation and risk administration of liquidity
- The bank must have a proper system to identify, measure, monitor and control liquidity risk. This procedure should comprise a healthy structure for fully predicting cash flow from asset, liability and balance sheet objects over a reasonable timetable.
- The bank must monitor and continuously monitor exposure to financial risks and financial requirements inside and crosswise all legal entities, business outline and currency, taking into explanation lawful, regulatory and operation limits.
- The bank must develop a financial support plan that provides a variety of effective source and amounts of money. It must maintain its continued presence in its selected sponsorship markets as well as strong relationships with financial providers. The bank should always measure its ability to receive immediate cash from every resource. It

should recognize the key factors affecting its capability to finance and check those factors intimately to make sure that fundraising rates are maintained.

- The bank must fully control its interest rates and risks in order to meet its obligations and repayments on time under both usual and empirical circumstances and thus add to the effective performance of the sum and payment system.
- The bank must administer its securities effectively, distinguishing between accumulated plus impaired asset. The bank must check the legal unit and the physical area in which the collateral is kept and how it can be collected on time.
- The bank must conduct periodic and periodic stress tests at various institutional and long-term institutions in order to classify potential sources of financial crisis and to make sure recent exposure. They are always in line by means of the bank tolerance for the risk of liquidity. The bank must use the results of the pressure test to adjust its strategies, policies, and positions for risk management revenue and to build up effective emergency tactics.
- The bank must have a possibility fund (CFP) system that clearly outlines strategy for dealing with emergency financing. The CFP must develop policies to manage the list of stress areas, create clear line of accountability, incorporate clear procedures for advocacy and appreciation and frequently reviewed and reviewed to make sure that they are sound.
- The bank must preserve a pillow of high quality non-performing liquid asset that will be kept as insurance against a range of liquidity pressures, including those involving loss or damage to secure and uncommon securities. There must be no legal, regulatory or equipped barrier to using these asset for funding.

- The bank must disclose information openly that allows market participant to make well-versed decisions concerning the appropriateness of its risk management structure and financial location.
- Managers must frequently perform a inclusive review of the bank risk administration and financial arrangement to decide whether they are providing the required level of resilience given the bank position in the monetary system.
- Managers must complement their general evaluation of the bank's risk management and financial position by monitoring a combination of internal reports, strategic information and market information.
- Managers should interfere to require effectual and appropriate measures to restructure the bank in the direction to address its shortcomings in the cash flow risk administration system or its financial condition.
- Managers should liaise with other regulators and government officials, such as central bank, inside and outside the nationwide boundaries, in order to make possible effective co-operation concerning the oversight of financial risk administration. Communication must take place at regular intervals, and the environment and frequency of information sharing thrive in times of stress.

## **Conclusion**

Banks focus on raising money for the people and focusing more on deposits. Therefore, in order to ensure better wages, public sector banks should focus on the management of their assets and strive to consolidate development more effectively. By keeping a good portion of the balance sheet, private corporate banks are better able to pull off shocking material compared to public sector banks; therefore public sector banks need to rely heavily on government funding during their crisis. It has become a major focus of the banking industry, with all banks trying to increase yields and reduce their exposure to risks. Asset Debt

administration is one of the main significant risk managing tools in banks. Banks need to be more proactive in dealing with asset debt management to increase their efficiency. Asset and Liability Management is important for all banks. Asset / liability management reduce the risk that a company may not meet up its obligation in the future prospect. The achievement of bank loan portfolio and pension tactics depends on asset managing practice. bank track the difference among the interest on the deposit plus the interest on the loan to ensure that they can pay interest on the deposit and establish the sum of interest that should be charged on the loan.

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