AN ANALYSIS OF ALM IN SELECTED COMMERCIAL BANKS

Kasireddy Venkateswara Reddy[1] **Dr D Sucharitha**[2]

[1]*Research Scholar, Department of Management Studies, Sri Jagdish Prasad Jhabarmal Tibrewala University, Rajasthan*

[2]*Assistant Professor, Department of Management Studies, Sri Jagdish Prasad Jhabarmal Tibrewala University, Rajasthan*

Abstract:

Asset Liability Management is one of the vital tools for risk management in banking sector. Commercial banks performance is totally dependent on the working of their Asset Liability Management. However, this asset liability management is also a protection from risk. Net worth of commercial banks gets enhancing opportunity by asset liability management and also safety is achieved. Ratio analysis is used to study the profitability of banks due to the impact of study in assets and liabilities. The study and analysis of Asset Liability Management in ranga reddy district commercial banks will be carried out for the sample period from 2014 to 2018. It provides the necessary framework to know the profits and safety of banks with define, measures, monitor, modify and manage these risks.

Keywords: *Asset Liability Management (ALM), Ratio analysis, Commercial Banks*

Introduction:

Ranga Redy district (RRD) bank is one of the top most public sectors in India. Ranga Reddy district bank is a Ranga Reddy district state owned financial services company. The nationalization of fourteen major commercial banks nearly decades ago has completely changed the size and structure of Ranga Reddy district banking system. Asset liability management is basically a hedging response to the risk in financial intermediation. it attempts to provide degree of protection to the institution from intermediation risk and makes such risk acceptable form of insurance. It provides the necessary framework to define measures, monitor, modify and manage these risks. Moreover, the function of asset liability management is not just protection from risk. The safety achieved through asset liability management also opens up opportunities for enhancing the net worth. The asset liability management can make it possible for an institution to take on position that would have been considered too large in the absence of protection offered by asset liability management. To maximizing the risk adjusted return to shareholders over the long run. Asset liability management (ALM) can be defined as the comprehensive and dynamic framework for measuring, monitoring and managing the financial risks associated with changing interest rates, foreign exchange rates and other factors that can affect the organization’s liquidity. ALM relates to management of structure of balance sheet (liabilities and assets) in such a way that the net earning from interest is maximized within the overall risk-preference (present and future) of the institutions. Thus the ALM functions includes the tools adopted to mitigating liquidly risk, management of interest rate risk / market risk and trading risk management. In short, ALM is the sum of the financial risk management of any financial institution.

Asset-Liability Management in Banks

In other words, ALM is all about managing three central risks:

- Interest Rate Risk
- Liquidity Risk
- Foreign currency risk

For banks with forex operations, it also includes managing

- Currency risk

Through ALM banks try to match the assets and liabilities in terms of Maturities and Interest Rates Sensitivities so as to minimize the interest rate risk and liquidity risk.

Objectives:

1. To Study the Assets and Liabilities in Banks.
2. To evaluate the impact of Asset Liability Management on profitability of banks.
3. To Evaluate activity of Asset Liability Management in Ranga Reddy district bank by using Ratio Analysis.

Methodology:

The Analysis of Asset Liability Management in Ranga Reddy district bank will be carried out for the sample period from 2014 to 2018.This study is purely based on the secondary data, the sources of data were collected through various journals, books etc. Financial details of the Ranga Reddy district bank and the RBI website.

Literature Review:

There is no underlying fact to ignore the importance of asset-liability management policy to ensure profitability and long-run sustainability of financial institutions in any economy. The study has been conducted to investigate the impacts of ALM policy on the profitability of sample banks working in Bangladesh. The rationality of this study is to observe the degree of relationship of different assets and liability variables with profitability through applying Statistical Cost Accounting (SCA) model using time series data from 2003 to 2014. To identify the relationship among the variables. After analysis, Loans & Advances is found to have a significant positive relationship with banks' profitability.

Over the last few years the Ranga Reddy district financial markets have witnessed wide ranging changes at fast pace. Intense competition for business involving both the assets and liabilities, together with increasing volatility in the domestic interest rates as well as foreign exchange rates, has brought pressure on the management of banks to maintain a good balance among spreads, profitability and long-term viability. These pressures call for structured and comprehensive measures and not just ad hoc action. The Management of banks has to base their business decisions on a dynamic and integrated risk management system and process, driven by corporate strategy. Banks are exposed to several major risks in the course of their business - credit risk, interest rate risk, foreign exchange risk, equity / commodity price risk, liquidity risk and operational risks.

This note lays down broad guidelines in respect of interest rate and liquidity risks management systems in banks which form part of the ALM function. The initial focus of the ALM function would be to enforce the risk management discipline viz. managing business after assessing the risks involved. The objective of good risk management programmes should be that these programmes will evolve into a strategic tool for bank management. The ALM process rests on three pillars: · ALM information systems => Management Information System => Information availability, accuracy, adequacy and expediency · ALM organization => Structure and responsibilities => Level of top management involvement · ALM process => Risk parameters => Risk identification => Risk measurement => Risk management => Risk policies and tolerance levels.

ALM information systems Information is the key to the ALM process. Considering the large network of branches and the lack of an adequate system to collect information required for ALM which analyses information on the basis of residual maturity and behavioral pattern it will take time for banks in the present state to get the requisite information. The problem of ALM needs to be addressed by following an ABC approach i.e. analyzing the behavior of asset and liability products in the top branches accounting for significant business and then making rational assumptions about the way in which assets and liabilities would behave in other branches. In respect of foreign exchange, investment portfolio and money market operations, in view of the centralized nature of the functions, it would be much easier to collect reliable information. The data and assumptions can then be refined over time as the bank management gain experience of conducting business within an ALM framework. The spread of computerization will also help banks in accessing data ALM organization.

The Board should have overall responsibility for management of risks and should decide the risk management policy of the bank and set limits for liquidity, interest rate, foreign exchange and equity price risks.

The Asset - Liability Committee (ALCO) consisting of the bank's senior management including CEO should be responsible for ensuring adherence to the limits set by the Board as well as for deciding the business strategy of the bank (on the assets and liabilities sides) in line with the bank's budget and decided risk management objectives.

The ALM desk consisting of operating staff should be responsible for analysing, monitoring and reporting the risk profiles to the ALCO. The staff should also prepare forecasts (simulations) showing the effects of various possible changes in market conditions related to the balance sheet and recommend the action needed to adhere to bank's internal limits.

Asset-Liability Management (ALM) is one of the important tools of risk management in commercial banks of India. The banking industry of India is exposed to number of risk prevailed in the market. The research paper discusses about issues in asset liability management. Assets and Liability Management (ALM) is a systematic and dynamic process of planning, organizing, coordinating and controlling the assets and liabilities or in the sense management of balance sheet structure in such a way the net earnings from interest are maximized within the overall risk preference of the banks. This study examined the effect of ALM on the Five Private Sector Banks profitability in Ranga Reddy district financial market by using Gap Analysis and Ratio

Analysis Technique. The finding from the study revealed that banks have been exposed to liquidity risk.

In RR district asset liability of the banks' balance sheet of commercial banks posed serious challenges as the banks, which have direct impact on their operations, profitability and efficiency to compete with. The RBI of the country focused and advised banks for taking concrete steps in minimizing the mismatch in the asset-liability management. There had been many positive impacts of various strategies followed by banks in the last one decade. Asset and Liability Management (ALM) plays key role in banking and finance industries. Any bank or financial industry will collapse without the use of ALM tactics. Therefore, to survive in the market, the ALM analysis is carried out timely by these industries to measure the value of risk factors involved. ALM analysis not only minimizes the risk but also it helps to achieve the financial goals of the industry. In this paper, we present a survey of various ALM techniques reported in the literature, aiming to financial stability. The survey helps for emerging banks to decide the different ALM process used by the banking industries and to select the efficient process out of the reported techniques.

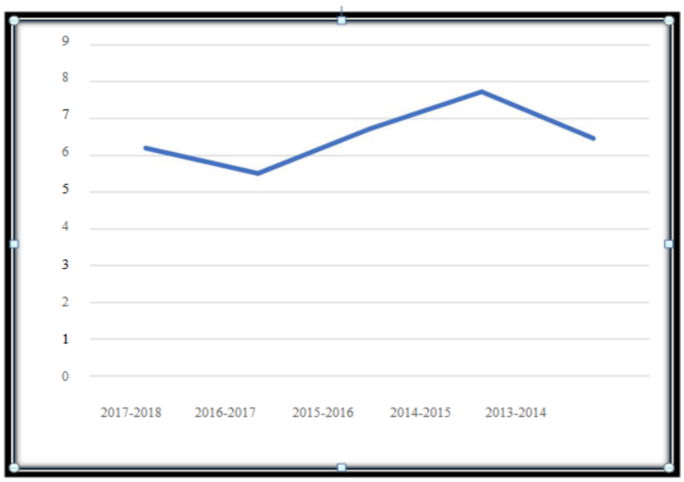
ANALYSIS

Table.1: Analysis of Current Assets to Deposits Ratio

Year	Percentage
2017-2018	6.20
2016-2017	5.50
2015-2016	6.73
2014-2015	7.73
2013-2014	6.46

Source: Annual reports of RR district selected bank

In the year 2014-2015 this ratio was 7.73% and reduced to 5.50%in 2016-2017.which means that the proportion current assets funded by deposits has gone down, however the average proportion of current asset to deposits is high in 6.20 in the 2017-2018.



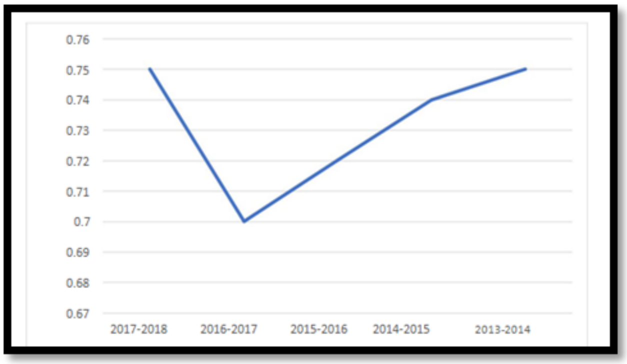
Evaluation Graph

Table.2: Analysis of Credit Deposits Ratio

Year	Percentage
2017-2018	0.75
2016-2017	0.70
2015-2016	0.72
2014-2015	0.74
2013-2014	0.75

Source: Annual reports of RR district selected bank

The ratio was 0.70 in the year 2016-2017 that increased to 0.75 in 2017-2018.The overall result of the tables expose that the advances of the banks are given through the deposit.



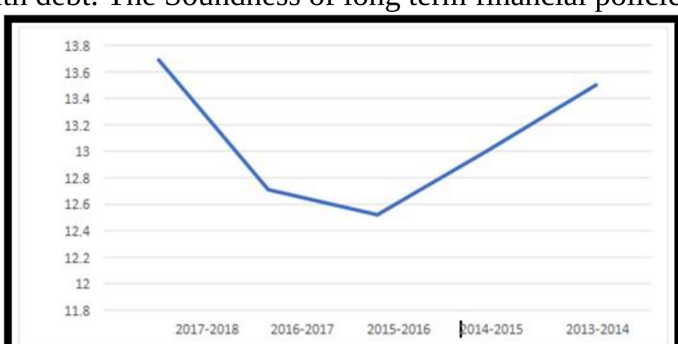
Evaluation Graph

Table: V.3. Analysis of Debt Equity Ratio

YEAR	PERCENTAGE
2017-2018	13.69
2016-2017	12.71
2015-2016	12.52
2014-2015	13.00
2013-2014	13.50

Source: Annual reports of RR district selected bank

In the year 2017-18, a high ratio is 13.69 generally means that a company has been aggressive in financing its growth with debt. The Soundness of long term financial policies of a company.



Evaluation Graph

CONCLUSION:

It has become the prime focus in the banking industry, with every bank trying to maximize yield and reduce their risk exposure. Asset Liability Management is one of the vital tools for risk management in banks. The banks have to work properly with regard to the Asset Liability Management so as to increase their performance. Managing the Asset and Liabilities is crucial for every bank.

REFERENCES

[1] Dr. Md. Salim Uddin & Anamul Haque (2016) The Cost and Management ISSN 1817-5090, vol-44, no-4, July.

[2] International Journal of Research in IT and Management (IJRIM) Vol. 6, Issue 10, October - 2016, pp. 92~98.

[3] Imperial journal of interdisciplinary research Vol-3, Issue-6, 2017 ISSN: 2454-1362, http://www.onlinejournal.in

[4] R. Vaidyanathan (1999) "Asset-liability management: Issues and trends in RangaRedy district context" Administrative Staff College of India, Asci Journal of Management 29(1). 39-48,

[5] Dr. Manjula Jain, Dr. Monica Singh "Assets Liability in RangaRedy district Banks: Issues and Implication".

[6] Liquidity risk management in banks: A conceptual Framework" by Manish Kumar and Ghanshyam Chand Yadav.

[7] Choudhary (2007) Bank Asset and Liability Management: Strategy, Trading Analysis.

[8] Brick J.R (2012) Asset-Liability Management: Theory, Practice, and the Role of Judgment.