

FUNDS MANAGEMENT IN BANKING SECTOR WITH REFERENCE TO SELECTOR PUBLIC SECTOR BANKS

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Introduction :

Banks are the important segment in any financial system. In India Reserve Bank of India plays a major role on the Indian banking system. Any successful bank is to manage their funds to meet the liquidity and maximize the profit within the regulatory framework of the central bank of the country, the Reserve Bank of India. In order to obtain this objective proper utilization of its funds resources is to be planned.

PSBs play an important role in the development of a country. A sound, progressive and dynamic banking system is a fundamental requirement for economic development. As an important segment of the tertiary sector of an economy, PSBs act as the backbone of economic growth and prosperity by acting as a catalyst in the process of development. They inculcate the habit of saving and mobilize funds from numerous small households and business firms spread over a wide geographical area. The funds so mobilized are used for productive purposes in agriculture, industry and trade

In India the nationalized banks are working with the social objective in addition to making profits. The mobilization of deposits and lending to priority sectors making them to be in a different plane compare to others. In this context funds management is the most important to maintain profits. The banks are to keep certain percentage in the form of cash reserves and Government/approved securities. The balance is available for lending subject to the regulatory guidelines such as lending to agriculture, MSME, exports and other conventional areas. The lending by banks gives rise to credit creation and increase money supply which in turn helps the economy to grow. The following are the five nationalized banks were considered as under which are originated from South part of India.

- 1 Indian Bank - Established on 15th August 1907
- 2 Indian Overseas Bank – Founded on 10th February 1937.
- 3 Canara Bank – July 1906.
- 4 Corporation Bank - 1906
- 5 Bank of India – 7th September, 1906.were taken

Need of the Study

The transformation of the Indian financial markets over the past few years, the growing integration of domestic markets with external markets, and the risks associated with banks operations have become complex and large, the requirement strategic management in dealing with such complexities are on rise. In a fairly deregulated environment, banks are now required to determine on their own, the interest rates on deposits and advances in both domestic and foreign currencies on a dynamic basis. 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 management of banks to maintain a good balance among spreads, profitability and long-term viability. Imprudent liquidity management practices can put banks earnings and reputation at higher stake, thus calling for structured and comprehensive measures and not just ad hoc actions.

The various risks that the banks are exposed to are – credit risk, interest rate risk, foreign exchange risk, equity/commodity price risk, liquidity risk and operational risks and thus, the banks need to introduce effective risk management systems that address the underlying issues. In such circumstances, banks need to address these risks in a structured manner by upgrading their risk management and adopting more comprehensive ALM practices than that has been done hitherto. ALM, among other functions, is primarily concerned with risk management and provides a comprehensive and dynamic framework for measuring, monitoring and managing the risks associated. In the process, it assesses various types of risks and alters the asset-liability portfolio in a dynamic way in order to manage risks. The first step of market risk management is to measure the liquidity and the interest rate risk. ALM policies are intended to keep those risks at an acceptable level given the expectations of future market/interest rates. Liquidity and interest rate policies, though distinct, are interdependent since any projected liquidity gap will be funded at an unknown rate, unless a hedge is contracted today.

Statement of the Problem

Mobilisation of resources – deposits (low cost funds) is major source of banks because of their network of branches all over India. The profitability of the selected banks mainly depends on how they lend/utilize. In this context a study may be useful for addressing the liquidity and profitability.

Now-a-days the banks are using Asset and Liability Management (ALM) as another strategy to build a conceptual framework for their banking activities to perform better and to take finest managerial decisions. Asset and liabilities management become essential tools to evaluate the risk facing by the bank in maintaining asset and liability to ensure profitability of the business. Assessing the quality of assets in banking sector plays a vital role in progress and development of performance of banking sectors, which may make a study of Asset Liability Management indispensable and momentous.

In India Public sector banks in particular, play key role in catering to the financial requirements of the social, priority and the unprivileged sectors of the economy. Their commitment to social banking is unquestionable. As a result, PSBs faced problems such as deployment of high cost funds to low return activities under social banking. The problem faced by PSBs is Sub-optimal use of resources. This can be easily identified

through their credit deposit ratio (around 50%) during the last five years.. In addition, there is a disproportionate investment in the government securities.

The investment deposit ratio of banks is more than 38 % as against the prescribed Statutory Liquidity Ratio (SLR) of 25%. The excess investment in government securities adds up to a staggering Rs. 1,00,000 crores. (Majumdar N.A,2002). This is the clear indication of mis-allocation of banks resources. The performance of most of the PSBs is unsatisfactory .The problems confronting the majority of Indian PSBs include inadequate capital, deposit mix loaded with high cost sources, costly borrowings from call money market, investments in low yielding assets, and low productivity, and the same. It is rightly observed that Asset Liability management is neglected by many of our banks.

A handful of personnel is engaged in such operations and does not have necessary infrastructural facilities. It would be necessary for banks and financial institutions to consciously take steps to develop specialised team for their treasury operations and to give them access to modern facilities to effectively undertake these operations. (Kannan, K., 1993). In the light of this scenario, the examination of funds management practices of PSBs, ascertainment of the gaps in the performance of different spheres of funds management and proposing the measures for strengthening funds management in banks become imperative.

Scope of the study

The world has become a global market in modern and Globalization has affected the banking sector also. Banking sector returns in India strive, to increase efficiency and profitability of the banking institution has to face the global competition. As a consequence, there has not only been rapid expansion in the number of banking institutions in the country, but the banking horizon of the country, has also changed significantly with the entry of new private sector and foreign banks.

Scope of the study is wider covers the banking sectors in India. There is huge emerging issue of financial conditions of banking sector in India. But, study is only going to cover selected nationalize five private banks and five public banks in India. Foreign Banks have been excluded from the study. As the policies and regulations of Foreign Banks are different from other Commercial Banks they are excluded. The time period is limited from January 2003 to December 2012 as it will give exact impact performance of banks.

The study may helpful for further descriptive studies on the ideas that will be explored. Moreover, it would be beneficial to gain knowledge regarding maintain the sound financial performance of banking sectors through vary factors like focuses on varying performance of public banks of India, the various financial indicators which effect over growth and performance of Indian banks and the study covers comparison scrutiny among the performance of public sector banks in India.

Objectives of the Study

The following are the important objectives of the study.

1. To evaluate the Asset Liability Management practices in selected Public Sector Banks (PSBs) in India.
2. To gauge the techniques of interest rates risk measurement in selected Public Sector Banks.

3. To analyse the gap between the spread of interest in the selected banks for effective management of the funds.

Profile of the study Area:

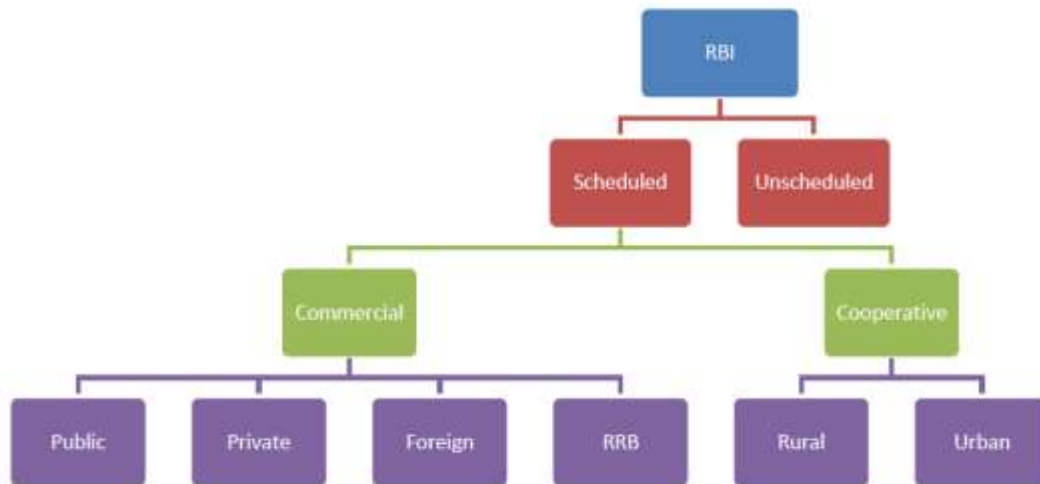
The Indian banking sector has emerged as one of the strongest drivers of India's economic growth. The Indian banking industry (US\$ 1.22 trillion) has made outstanding advancement in last few years, even during the times when the rest of the world was struggling with financial meltdown. India's economic development and financial sector liberalization have led to a transformation of the Indian banking sector over the past two decades. Today Indian Banking is at the crossroads of an invisible revolution. The sector has undergone significant developments and investments in the recent past. Most of banks provide various services such as Mobile banking, SMS Banking, Net banking and ATMs to their clients. Indian banks, the dominant financial intermediaries in India, have made high-quality progress over the last five years, as is evident from several factors, including annual credit growth, profitability, and trend in gross non-performing assets (NPAs). While annual rate of credit growth clocked 23% during the last five years, profitability (average Return on Net Worth) was maintained at around 15%.

Although some form of banking, mainly of the money-lending type, has been in existence in India since ancient times, it was only over a century ago that proper banking began. The first bank in India, though conservative, was established in 1786. From 1786 till today, the journey of Indian Banking System can be segregated into three distinct phases. They are as mentioned below:

Early phase from 1786 to 1969 of Indian Banks • Nationalization of Indian Banks and up to 1991 prior to Indian banking sector Reforms • New phase of Indian Banking System with the advent of Indian Financial and Banking Sector Reforms after 1991 The banking industry has moved gradually from a regulated environment to a deregulated market economy. The market developments kindled by liberalization and globalization have resulted in changes in the intermediation role of banks. The pace of transformation has been more significant in recent times with technology acting as a catalyst. While the banking system has done fairly well in adjusting to the new market dynamics, greater challenges lie ahead.

The Reserve Bank of India, the nation's central bank, began operations on April 01, 1935. It was established with the objective of ensuring monetary stability and operating the currency and credit system of the country to its advantage. In India, the banks are being segregated in different groups. Each group has their own benefits, own dedicated target markets, limitations in operating in India. The commercial banking structure in India consists of Scheduled Commercial Banks and Unscheduled Banks. Scheduled commercial Banks constitute those banks which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. For the purpose of assessment of performance of banks, the Reserve Bank of India categorise them as public sector banks, old private sector banks, new private sector banks and foreign banks. The following Chart represents the structure of Banks in India.

Structure of Indian Banking Sector.



Methodology and of analysis

It is decided to use mainly secondary data. The required data will be collected from the annual reports of the banks and published materials in addition to the information available in websites of the concerned banks, Reserve Bank of India, Indian Banks Association, The institute of Banking and Finance, Bombay Stock Exchange, National Stock Exchange, Foreign Exchange dealers association, Fixed Income money marker & derivatives association of India and the like. The study have applied the financial tools especially Gap analysis, balance sheet analysis, ratio analysis, interest rate sensitivity analysis, rate sensitive asset analysis and rate sensitive liability analysis to analyse the data and to provide the meaningful interpretation.

The findings of the current status of Asset Liability Management in Indian banks. 3

In the context of the Indian Bank, the Bank has a negative Gap that is the Rate Sensitive Assets are less than its Rate sensitive liabilities. The Gap of the bank for the taken years ranges from -2731.09 crores in 2008-09 to -8315.30 crores in 2018-19. Canara Bank the Gap of the bank has improved over the years from -6107.44 crores in 2008-09 to 4925.24 crores in 2017-18. The Bank of India too is in the same trend as it had a Gap of 2013.11 crores in 2008 and it saw a rise in its rate sensitive assets which is evident in the fact that the Gap was 59016.13 crores for the year 2017-18. The Bank now has enough assets to provide for its business spread. The Corporation Bank had negative Gap from -10.88 in 2008-09 to -3857.39 in 2017 -18 the bank tried to improve its Gap and is taking necessary actions for it. Indian Overseas Bank started with the negative Gap of -1777.47 in the year 2008-09 and it ended with a Gap of 7530.2 in the year 2017-18. The rate sensitive assets and

liabilities are increasing and the sensitive liability portion are more than the asset portion in Indian bank is concern.

The result of Canara bank shows that the financial year 2008-09 the sensitive liability is comparatively more than the asset portion but in the subsequent years the asset portion is higher than the liabilities that is in the year 2008-09 the sensitive asset was Rs.1,93,949.12 crores and the liabilities were Rs.2,00,056.56 crore. In the year 2017-18 the sensitive assets were Rs.5, 63,580.37 on the other hand the liabilities were Rs. 5, 58,655 which is comparatively lesser than the assets. In Bank of India is concern the same position were observed both in the case of sensitive assets and liabilities. In the financial year 2008-09 the sensitive liability is comparatively more than the asset portion but in the subsequent years the asset portion is higher than the liabilities that is in the year 2008-09 the sensitive asset was Rs.1,99,195.46 crores and the liabilities were Rs.2,01,208.57 crore. In the year 2017-18 the sensitive assets were Rs.5,64,443.16 crore on the other hand the liabilities were Rs.5,05,427.03 which is comparatively lesser than the assets. In Corporation bank is concern, it is observed both in the case of sensitive assets and liabilities are very closer in movements and increased very steadily.

In the financial year 2008-09 the sensitive liability is comparatively more than the asset portion the same were observed in the subsequent years the asset portion is higher than the liabilities that is in the year 2016-17 only. The sensitive asset was Rs.2,27,027.79 crores and the liabilities were Rs.2,21,551.08 crore. In India Overseas Bank is concern, it is observed both in the case of sensitive assets and liabilities are very closer in movements and increased very persistently. In the financial year 2008-09 the sensitive liability is comparatively more than the asset portion the same were observed in the subsequent years the asset portion is higher than the liabilities that is in the year 2014-15 onwards. The sensitive asset was Rs.2,26,059.89 crores and the liabilities were Rs.2,18,529.69 crore during the financial year 2018-19. Risk sensitive assets and liabilities are taken as per the RBI guidelines and compared with net interest income. The Gap analysis (RSA – RSL) is computed to judge the efficiency of the funds management of the banks in the taken period. Net interest income (interest earned – interest extended) reached an all time high for the Indian Overseas Bank in the 2011-12 due to the drastic increase in their income. Being a public sector bank the major duty of the banks is to mobilize funds from the public and use it for a better purpose, hence the better bank may have a some moderate gap between it interest earned and extended. In this context when analyses the net interest income and Gap for the taken five banks, the net income is in some moderate level and the Gap is negative and improving for the Indian Bank, whereas the Canara bank show a positive Gap with normal net interest income, the corporation bank show that the interest is low comparative to others in the industry in the same period and its Gap shows an zig zag trend. The bank of India shows a positive sign for Gap and good net interest income. The Indian Overseas Bank showed a boom in the net interest income and its Gap is improving.

Operating profit (income – operating expenses) per share of Indian Bank has been increased in the taken 10 years as the income of the bank has been increased from Rs 7800 crores(Approx.) in the year 2008-09 to 19,500 crores in 2017-18 (Approx). In Indian Bank , the interest spread (Difference between the interest received and interest paid) is considerably reduced due to reduction of interest rates for credit avaiation, being a public

sector bank it has also not given much reduction in the interest rates of deposit. This has impacted the interest earned and other income to a greater extent where we can see a raise from Rs 7800 crores (Approx) to 19,500 crores (Approx) in the taken years. The profit margin has however been reduced due to above said reason from 7.46% to 5.72% .

The efficiency of the management in Indian Bank is seen in the optimistic use of the cost for bar the line benefits and the spreading or increasing the areas of business, Here the bank has seen an increase in the interest income as well as other income, When compared with the total funds the interest income and the other income shows a slight decrease, while a same trend (without major increase or decrease) is maintained for the net income (Interest earned – Interest extended) and operating expenses. Interest Extended was above 6 from 2013-2016, and there after it saw a decrease. When compared with the capital employed in Indian Bank the total income saw a rise in 2018, interest extended maintained a same trend. Total assets to turnover was 0.08 which was more or less maintained during the period taken for study. Interest expended was on an average 65.51 times of interest income in Indian Bank. This shows that the bank has gained public confidence and has mobilized funds.

Other income to total income amounts to an average of 164 10.50% which tells us that the interest income is the banks main income source and it has spent 18.50% of its total income as operating expenses. Capital adequacy ratio in Indian Bank shows a positive trend while the total advances given when compared with net worth amounts to 9.46%, which shows that the bank has utilized not less than 10% of its net worth, Hence there are surplus funds available for the bank. The total loans amounts to 72.88% of the total advances on an average during the period taken into consideration which clearly indicates that the funds have been rotated properly in Indian Bank. Investment is about 31.43% of the total deposits. The bank has very well balanced the usage of deposits. The current ratio on an average amounts to 1.04 which is less as compared to the industry average of 1.50 in Indian Bank. Whereas the quick ratio comes to 0.38 on an average which is a positive sign. The dividend payout ratio to the net profit amounts to 19.31 for the remaining years. The dividend payout ratio to the cash profit (not considering noncash expenses) amounts to 19.31 for the remaining years. For the current year the total profit was retained, for the remaining years it averages to 67.75 in Indian Bank. The Indian bank share yields Rs 29.35 on an average with the average book value of 234.53. 24.

Operating profit (income – operating expenses) per share in Canara Bank has been increased in the taken 10 years as the income of the bank has been increased from Rs 17100 crores (Approx) to 41,200 crores (Approx). This is done by the various policies of the bank particularly the reduction of the interest rates for loans to avail credit (This is evident in the reduction of the Interest spread) to attract the customers and to increase income. The highest dividend given by the bank is 130 crores and lowest was Rs 105 crores. The face value of the bank has not changed over the period (2009 – 2018). In Canara Bank, the interest spread (Difference between the interest received and interest paid) is stabilized due to reduction of interest rates for credit availed, being a public sector bank it has also not given much reduction in the interest rates of deposit. This has impacted the interest earned and other income to a greater extent where we can see a raise from Rs 17100 crores (Approx)

to 41,200 crores (Approx) in the taken years. The profit margin has however been reduced due to above said reason from 12.11% to -10.24%.

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