Treasury Management in selected Public and Private Sector Banks

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Abstract: No bank can survive without proper risk management. From the history of banks, it can be seen that poor risk management has always been the reason of failure of banks. Risk Analysis and Risk Management have got much significance in the Indian Economy. The most challenging tasks done by banks today are understanding and managing the risk. Treasury management includes management of risk faced by a bank at any given point of time. This present research has been done to analyze the treasury department working in selected public and private sector banks.

Keywords: Treasury Management, Risk, Public Sector Banks, Private Sector Banks.

Introduction: While tracing the history of banking, it is not wrong to say that banking is existing from the day human being came into existence. The form and size of banking kept on changing according to the needs. Banks used to exist even when there was no money as money is valuable and we keep it in custody. In the same way, valuable things existed in all the time periods. The oldest form of banking was Indigenous Banks where lending money used to be the main function. The Indian banking history can be traced to 1786 with the establishment of first ever bank "The General Bank of India".

The economic growth of any nation is not a result of single factor, it depends on number of factors such as industrial growth and development, agricultural modernization, the degree of expansion of internal and foreign trade etc. The backbone behind all these developments lies in the capabilities of banking performance of that nation. So, the role of banking sector and its importance cannot be under estimated. A sound banking industry is a key indicator to check the performance of nation's economy.

The banking sector has changed the expectations of millions of people into reality. Today, Indian banks can compete with different modern banks of the world.

Treasury Risk Management – Organizational Wings and Functionality

The Board of Directors in any bank is the supreme authority who is responsible for overall risk management. For better risk management, a number of sub-committees are created for treasury risk functional management. These are:

- Risk Management Sub-Committee
- ALCO

Treasury Functions in a Bank:

The treasury functions in a bank can be viewed from different angels as follows:

1. **Treasury – A Cost Centre:** This is the conventional approach where treasury function is treated as cost centre. As it facilitates transaction flows across different units with focus on risk. During the transactions, if any loose end is identified, necessary risk safeguards are set.
2. **Treasury – A Service Centre:** This is the current approach where treasury function focusses on emerging trading opportunities, with adequate emphasis on reducing risk.
3. **Treasury – A Profit Centre:** This approach considers treasury function is considered with the objective of ensuring a higher level of earnings with new products, without much emphasis on risk management. This approach is profit-driven and sometimes can be disastrous.

Review of Literature:

Subbarao, P. S. (2007) in “Changing Paradigm in Indian Banking” has studied IBS in the reforms era in context of the foremost trends in banking industry all over the world. The aspects covered in the study have included consolidation in the industry, globalization of the players, advent modern technology, initiatives in the direction of universal banking, thrust on profitability and risk management, rural banking and financial inclusion. The author has concluded that it has transformed from the domestic banking phase to international banking phase. The author has also suggested that the IBS needs a combination of new technological advancements, well-regulated credit and risk management system, proper treasury management, diversification of products, internal control, external regulations as well as skilled human resources to attain the heights of excellence so as to meet the challenges of globalization.

Sharma, K. (2007) conducted study on “An Empirical study of Asset Liability Management Approach By Indian Banks” The main objectives of the research are to inspect the relationship between assets and liabilities of in terms of nature and strength, to know the factors of assets explaining variance in liability and vice versa and also to discuss the impact of ownership over ALM in Indian banks. A sample including nationalized, private and foreign banks was considered for this research. The study concluded with the findings that among all banks SBI & associates have the best correlation between assets and liabilities which indicate that they have best asset-liability maturity pattern. Other than foreign banks all other banks can be called liability managed banks. They all borrow money from market to meet there maturing liabilities. Fixed assets and net worth are highly correlated. All the selected banks have proportionate net worth and investment in fixed assets. Private Banks are aggressive in profit generation. They use short-term funds for long term investments. They use risky strategy in case of liquidity problem or rising interest rate scenario. Nationalized banks are more worried about their liquidity. They use long term funds for long as well as medium & short-term loans.

Research Methodology

Objective of the Research Paper:

- To identify and compare the working of treasury department by Public and Private Sector Banks

Sample Size:

10 banks (which consist of 5 Public Sector Banks and 5 Private Sector Banks were selected for the study.

Table 1: Names of Selected Banks

S.No.	PSBs	S.No.	Pvt.SBs
1	State Bank of India	1	Axis Bank
2	Bank of Baroda	2	HDFC Bank
3	IDBI Bank Ltd.	3	ICICI Bank
4	Indian Bank	4	Kotak Mahindra Bank
5	UCO Bank	5	Yes Bank

75 managers of different departments have been randomly selected to obtain the responses regarding risk management practices in their banks. 60 questionnaires have been finalized for the further analysis, 30 each of PSBs and Pvt. SBs, which depicts a good response rate of 80%.

Data Analysis:

Reliability Analysis of Study Variables

S.No.	Variable	Cronbach's Alpha Coefficient
4	Treasury Department	0.88

Note: Accepted value of alpha coefficient is .70 or more

Table shows that the Cronbach's alpha coefficients of variable is more than acceptable level (0.70). Approaching bank managers at appropriate time by taking earlier appointments and also providing sufficient time to them eventually increased the reliability of the responses.

Managers' Responses on Treasury Department (PSBs)

SN	Statement		SA	A	N	D	SD	Total
1	There is a separate treasury department in Bank	N	23	6	1	0	0	30
		%	76.67	20.00	3.33	0.00	0.00	100
2	The responsibilities of front, middle and back offices are clearly segregated.	N	19	8	3	0	0	30
		%	63.33	26.67	10.00	0.00	0.00	100
3	The back office is able to reconcile transaction details with front office, timely	N	9	12	9	0	0	30
		%	30.00	40.00	30.00	0.00	0.00	100
4	The Bank is able to reconcile transaction details with its counterpart in timely manner.	N	3	18	9	0	0	30
		%	10.00	60.00	30.00	0.00	0.00	100
5	The middle office monitors the operations of back and front offices	N	9	10	11	0	0	30
		%	30.00	33.33	36.67	0.00	0.00	100
6	The Bank has ensured that administration of all the three offices does not lie with the same person	N	9	20	1	0	0	30
		%	30.00	66.67	3.33	0.00	0.00	100
7	The internal audit of all three offices is conducted on regular basis.	N	11	18	1	0	0	30
		%	36.67	60.00	3.33	0.00	0.00	100
8	The reports presented by departments are easily understandable and used in decision making.	N	5	16	7	2	0	30
		%	16.67	53.33	23.33	6.67	0.00	100

Mean and Standard Deviation of Managers' Responses on Treasury Department (PSBs)

SN	Statement	Mean	SD
1	There is a separate treasury department in Bank	4.73	0.52
2	The responsibilities of front, middle and back offices are clearly segregated.	4.53	0.68
3	The back office is able to reconcile transaction details with front office, timely.	4.00	0.79
4	The Bank is able to reconcile transaction details with its counterpart in timely manner.	3.80	0.61
5	The middle office monitors the operations of back and front offices	3.93	0.83
6	The Bank has ensured that administration of all the three offices does not lie with the same person	4.27	0.52
7	The internal audit of all three offices is conducted on regular basis.	4.33	0.55
8	The reports presented by departments are easily understandable and used in decision making.	3.80	0.81
	Overall Scale Values	**4.18**	**0.74**
			N=30

Managers' Responses on Treasury Department (Pvt.SBs)

SN	Statement		SA	A	N	D	SD	Total
1	There is a separate treasury department in Bank	N	17	9	4	0	0	30
		%	56.67	30.00	13.33	0.00	0.00	100
2	The responsibilities of front, middle and back offices are clearly segregated.	N	17	6	4	3	0	30
		%	56.67	20.00	13.33	10.00	0.00	100
3	The back office is able to reconcile transaction details with front office, timely	N	14	13	2	1	0	30
		%	46.67	43.33	6.67	3.33	0.00	100
4	The Bank is able to reconcile transaction details with its counterpart in timely manner.	N	16	9	5	0	0	30
		%	53.33	30.00	16.67	0.00	0.00	100
5	The middle office monitors the operations of back and front offices	N	12	9	8	1	0	30
		%	40.00	30.00	26.67	3.33	0.00	100
6	The Bank has ensured that administration of all the three offices does not lie with the same person	N	12	9	9	0	0	30
		%	40.00	30.00	30.00	0.00	0.00	100
7	The internal audit of all three offices is conducted on regular basis.	N	12	16	2	0	0	30
		%	40.00	53.33	6.67	0.00	0.00	100
8	The reports presented by departments are easily understandable and used in decision making.	N	12	13	5	0	0	30
		%	40.00	43.33	16.67	0.00	0.00	100

Mean and Standard Deviation of Managers' Responses on Treasury Department (Pvt.SBs)

SN	Statement	Mean	SD
1	There is a separate treasury department in Bank	4.43	0.73
2	The responsibilities of front, middle and back offices are clearly segregated.	4.23	1.04
3	The back office is able to reconcile transaction details with front office, timely.	4.33	0.76
4	The Bank is able to reconcile transaction details with its counterpart in timely manner.	4.37	0.77
5	The middle office monitors the operations of back and front offices	4.07	0.91
6	The Bank has ensured that administration of all the three offices does not lie with the same person	4.10	0.84
7	The internal audit of all three offices is conducted on regular basis.	4.33	0.61
8	The reports presented by departments are easily understandable and used in decision making.	4.23	0.73
	Overall Scale Values	**4.26**	**0.80**
			N=30

In PSBs the mean values of all the responses vary between 3.80 and 4.73. The first statement indicates the highest mean score of 4.73 and 4.43 in PSBs and Pvt.SBs respectively. It clearly shows that banks have separate treasury department. The fourth and eighth statement shows lowest mean (3.80) in PSBs which indicates that sometimes the Bank may fail to reconcile transaction details with its counterpart in timely manner and also the reports presented by departments are not easily understandable.

Similarly in case of Pvt.SBs, the mean values range between 4.07 and 4.43. The fifth item has the lowest mean value (4.07) which shows that the middle office sometimes does not monitor the operations of back and front offices.

Findings:

The questionnaire was directly linked to treasury management in banks. 23 of the PSBs' employees were strongly agreed that their banks have separate treasury department. Only 3 managers were strongly agreed that the bank is able to reconcile transaction details with its counterpart in timely manner.17 of the Pvt.SBs' managers were strongly agreed that their banks have separate treasury management department.

Conclusion: Management of risk can be most effective when it is applied consistently across the bank. The banks should centralize key processes around risk and decentralize decision making at branch level including clearing roles and responsibilities of employees within banks. IT system should be embedded in risk management which will further make it easy for risk managers to effectively manage risk. As risk is crucial for banking, appropriate assessment of risk is an essential part of a bank's risk management system. Banks are focusing more on the extent of their risk exposure and making strategies to deal with them effectively and efficiently. Finally, the treasurers in the banks are not only looking at the current situation but also getting ready to face the upcoming challenges as the regulatory changes are very fast. The concept of integrated treasury is emerging which is a holistic approach of deploying the funds in domestic and global market. The study reveals that private sector banks have better treasury department working.

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