ISSN: 2249-7196
IJMRR/June-2024/ Volume 14/Issue 4/164-172
Bojjalawar Bharath / International Journal of Management Research & Review

A STUDY OF ASSET LIABILITY MANAGEMENT ICIC PRUDENTIAL

[1]BOJJALAWAR BHARATH and [2]Dr. D. SRISAILAM,
[1]PG Scholar, [2]Associate Professor,
[1,2]Department of Management, Teegala Krishna Reddy Engineering College (UGC-Autonomous), Hyderabad,
Telangana, India

ABSTRACT

Assets and liabilities management (alm) is a dynamic process of planning, organizing, coordinating and controlling the assets and liabilities – their mixes, volumes, maturities, yields and costs in order to achieve a specified net interest income (nii). The nii is the difference between interest income and interest expenses and the basic source of banks profitability. The easing of controls on interest rates has led to higher interest rate volatility in india. Hence, there is a need to measure and monitor the interest rate exposure of indian banks. This paper entitled “a study on the assets and liabilities management (alm) practices with special reference to interest rate risk management at icici bank” is aimed at measuring the interest rate risk in icici bank by using gap analysis technique. Using publicly available information, this paper attempts to assess the interest rate risk carried by the icici bank in march 2005, 2006, & 2007. The findings revealed that the bank is exposed to interest rate risk.

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.

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 of 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 of come from outside sources, the management is concerned about **risk** arising out of shrinkage in the value of asset, and managing such risks became critically important to them. Although co-operative 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.

asset liability management (alm) is a portfolio management of assets and liability of an organization. This is a method of matching various assets with liabilities on the basis of expected rates of return and expected maturity pattern.

in the context of **alm** is defined as "a process of adjusting liability to meet loan demands, liquidity needs and safety requirements". This will result in optimum value of the, at the same time reducing the risk faced by them and managing the different types of risks by keeping it within acceptable levels.

NEED OF THE STUDY

the need of the study is to concentrates on the growth and performance of icici and to calculate the growth and performance by using asset and liability management, and to know the management of nonperforming assets.

- To know financial position of icici
- To analyze existing situation of icici
- To improve the performance of icici
- To analyze competition between icici with other cooperative.

METHODOLOGY OF THE STUDY

The study of **alm management** is based on two factors.

- Primary data collection.
- 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

Gathering the information from other managers and other officials of the

ISSN: 2249-7196
IJMRR/June-2024/ Volume 14/Issue 4/164-172
Bojjalawar Bharath / International Journal of Management Research & Review

Secondary data collection:

Collected from books regarding, journal, and management containing relevant information about alm and other main sources were.

- Annual report of the **icici**
- Published report of the
- **Rbi** guidelines for **alm.**

LIMITATION OF THE STUDY

- This subject is based on past data of icici.
- The analysis is based on structural liquidity statement and gap analysis.
- The study is mainly based on secondary data.

REVIEW OF LITERATURE

Dash and pathak (2011), his survey proposed on linear model for asset-liability assessment. They found pubic sector banks are having the best asset-liability management positions. In turn, they found that public sector banks had a strong short-term liquidity position, but with lower profitability, while private sector banks had a comfortable short-term liquidity position, balancing profitability.

Dr. Anurag singh, priyanka tandon (2012) 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.

Sayeed (2012), attempted to examine the impact of asset and liability management on the profitability high profitable and low profitable and private and public banks working in bangladesh applying statistical cost accounting (sca) methods and found high earning banks experience higher returns from their assets and lower returns from their liabilities than the low earning banks.

petraityte (2013) states that alm is a tool that combines several bank portfolios - asset, liabilities, and the difference between the banks received and interest paid by the bank. The main alm purpose is to connect different bank activities into a single unit, facilitating liquidity and balance sheet management.

Sayeed (2012), attempted to examine the impact of asset and liability management on the profitability high profitable and low profitable and private and public banks working in bangladesh applying statistical cost accounting (sca) methods and found high earning banks experience higher returns from their assets and lower returns from their liabilities than the low earning banks petraityte (2013) states that alm is a tool that combines several bank portfolios - asset, liabilities, and the difference between the banks received and interest paid by the bank. The main alm purpose is to connect different bank activities into a single unit, facilitating liquidity and balance sheet management.

Kumar, (2014), studied on research, the most important factor which banks required to manage now days is liquidity. This study analyzed short term liquidity and maturity gap of the banks in order to decreases risk in banking sector. This survey help banks to reduce the risk which is very essential for all financial institution in india.

Shetty (2016) conducted a study on an analysis of private banks exposure to asset liability management. These paper attempts to assess the liquidity risk that all five private sector banks are exposed to spread over a period from 2011 to 2015. The finding from the study revealed that banks have been exposed to liquidity risk. The study also indicated that hdfc bank and icici bank have better alm framework in practice.

Md. Salim, & anamul haque (2016) investigated the impacts of alm policy on the profitability of sample banks workingin bangladesh. The rationality of this study is to observe the degree of relationship ofdifferent 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 tohave a significant positive relationship with banks' profitability.

Ms. Pooja patel, ms. Nandini (2016) studies the asset liability management in indian bank 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 indian financial market by using gap analysis and ratio analysis technique. The finding from the study revealed that banks have been exposed to liquidity risk.

Prabhakar, dr. S. Mathivannan, j. Ashok kumar (2017) studied 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.

Tee (2017), evaluated on asset liability management and the profitability of listed banks in ghana. The purpose of this paper is to assess the impact of asset and liability management on the profitability of listed banks in ghana. Multiple linear regression has been applied by taking roa as the dependent variable, and tas (the total asset) and tlt (the total liability) representing the asset and liability mix of the banks.

DATA ANALYSIS
&
INTERPRETATION

General:

the classification of various components of assets and liabilities into different time buckets for preparation of gap reports (liquidity and interest rate sensitivity) may be done as indicated in appendices i & ii as a sort of **bench mark.** Which are better equipped to reasonably estimate the behavioral pattern, embedded options, rolls-in and rolls-out etc of various components of assets and liabilities on the basis of past date, empirical studies could classify them in the appropriate time buckets, subject to approval from the icici / board. A copy of the note approved by the aloc / board may be sent to the department of supervision.

the present framework does not capture the impact of embedded options, i.e., the customers exercising their options (premature closure of deposits and prepayment of loans and advances) on the liquidity and interest rate risks profile of s. The magnitude of embedded option risk at times of volatility in market interest rates is quite substantial should therefore evolve suitable mechanism, supported by empirical studies and behavioral analysis to estimate the future behavior of assets; liabilities and off-balance sheet items to changes in market variables and estimate the embedded options.

a scientifically evolved internal transfer pricing model by assigning values on the basis of current market rates to funds provided and funds used is an imported component for elective implementation of alm systems. The transfer price mechanism can enhance the management of margin i.e., landings or credit spread the funding or liability spread and mismatch spread. It also helps centralizing interest rate risk at one place which facilitates effective control and management of interest rate risk. A well defined transfer pricing system also provides a rational framework for pricing of assets and liabilities.

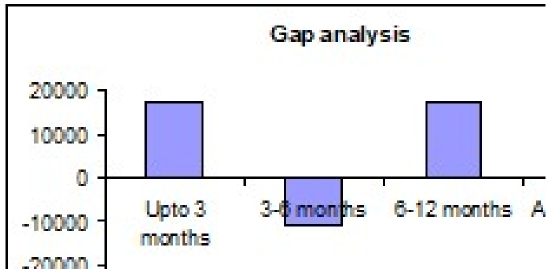
TABLE

STRUCTURAL LIQUIDITY STATEMENT AS ON 31-3-2023

S.No	Particulars	Upto 3 months	3-6 months	6-13 months	Abov
A	**Liabilities:**				
1	**Deposits**				
	I. Current A/c	797.51			2
	II. SB A/c	2326.19			6
	III. Fixed Dep.	6527.21	18607.72	19270.14	119
	Sub-Total	9650.87	18607.72	19270.14	137
2	Borrowings	49196.96	62102.79	65967.38	184
3	Paid-up Share Capital				19
4	Reserves and Surpluses				64
5	Other provisions				47
6	Balance P & L A/C				
7	Other Liabilities	19210.24	829.28	1070.19	1
	TOTAL (A)	**75048.07**	**77539.79**	**83307.67**	**419**
B.	**ASSETS:**				
1	Cash in Hand	734.22			
2	Balances	1805.71	565.04	629.98	
3	**Advances:**				
	Soft ware-LT	25804.99		5619.56	18
	Soft ware-ST	19632.22	49643.25	63833.34	80
	Bills purchased	329.64			

ISSN: 2249-7196
IJMRR/June-2024/ Volume 14/Issue 4/164-172
Bojjalawar Bharath / International Journal of Management Research & Review

GRAPH



Interpretation

- The total current liabilities for the three months are rs. 75048.07 is less than the total assets for the 3 months are rs.92274.4. Therefore the assets are more than the liabilities. So there is a positive gap of rs.19226.33.
- The total current liability for the 3-6 months is rs.77539.79 is more than the total assets for the 3-6 months are rs.66933.34. Therefore the liabilities are more than the assets .this is a negative gap so the company should take steps to ensure the liquidity position.
- The total current liabilities for the 6-13 months are rs.83307.67. Current assets are rs.100745.1. Current liabilities less than the current assets so there is a positive gap of rs.19437.43.
- The total current liabilities for the above 1 year amount 419571.77. Current assets amount rs.395518.46. Current liability is more than the current assets. This is negative gap. So the company should take steps to ensure the liquidity position.

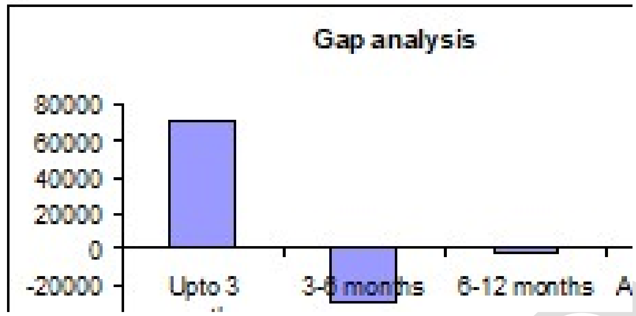
TABLE

Structural liquidity statement as on 31-3-2022

					(Rs. In l
S.no.	Particulars	Upto 3 months	3-6 months	6-13 months	Above 1
A	**LIABILITIES:**				
1	**DEPOSITS**				
	I) Current A/C	998.25	0	0	2
	ii) Savings A/C	2351.63	0	0	
	iii) Term Deposits	3860.87	21958.18	29535.68	119
	Sub-total	7210.75	21958.18	29535.68	138
2	Borrowing	33421.23	73972.32	65328.19	149
3	Other Liabilities	22274	1926.62	1989.58	190
	TOTAL 'A'	62905.98	97857.08	96553.45	42
B	**ASSETS**				
1	Cash in hand & Balance	8618.44	0	0	
2	**Advances**				
	I) LT - operations	22602.8	0	0	222
	ii) ST-operations	80033.7	43083.29	80265.3	5
	iii) other loans including BP	1909.51	19582.02	2860.37	39

ISSN: 2249-7196
IJMRR/June-2024/ Volume 14/Issue 4/164-172
Bojjalawar Bharath / International Journal of Management Research & Review

GRAPH



Interpretation

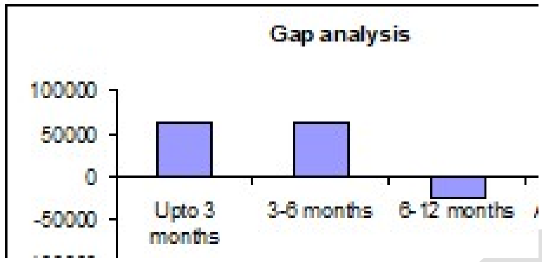
- The total current liabilities for the 3 months are rs.62905.98 is less than the total assets for the 3months are rs.144976.19. Therefore the assets are more than the liabilities. So there is a positive gap of rs.72070.19
- The total current liabilities for the 3-6months are rs.97857.08 is more than the total assets for 3-6 months are rs.67843.77. This is a negative gap. So the company should take steps to ensure the liquidity position.
- the total current liabilities for the 6-13 months are rs.96553.45 is more than the total assets for the 3-6months are rs.94057.04.this is a negative gap. So the company should take steps to ensure the liquidity position .
- The total current liabilities for the above 1year amount rs.428430.7. Current asset amount rs.379844.76. Current liability is more than the current asset. This is a negative gap. So the company should take steps to ensure the liquidity position.

TABLE

STRUCTURAL LIQUIDITY STATEMENT AS ON 31-3-2021

S.no	Particulars	Upto 3 months	3-6 months	6-13 months	Above 1
A	**Liabilities**				
1	**Deposits**				
	I) Current A/C	1437.91			4
	ii) SB A/C	3051.33			9
	iii)Fixed Dep.	33192.78	18618.27	47364.4	57
	Sub-Total	37562.02	18618.27	47364.4	70
2	ST Borrowings	19493.88	19976.62	107647.03	82
3	LT Borrowings	42.8	1854.4	957.56	192
4	Paid-up Share Capital				19
5	Reserves				119
6	Other Reserves/Provisions				3
7	Balance P&L A/C				
8	Interest Payable	5021.66	987.81	1923.37	21
9	Other Liabilities	10055.84	19.19	9.97	33
	TOTAL'A'	69196.2	33048.25	197602.33	529
B	**Assets:**				
1	Cash in hand	954.44			
2	Balances	9404.34			
3	**Advances:**				
	I) LT-operations	20383.8		4633.7	236
	ii) ST-operations	34340	76352.64	136802.3	64
4	Bills purchased	20.6			

GRAPH



Interpretation

The total current liabilities for the 3months are rs.69196.2 is less than the total assets for the months are rs.141924.59.therefore the assets are more than the liabilities. So there is a positive gap of rs.62548.39

The total current liabilities for the 3-6 months are rs.33048.25 is less than the assets for the 3months are rs.95519.39. Therefore assets are more than the liabilities. So there is a positive gap of rs.62467.18

The total current liabilities for the 6-13 months are rs.197602.33 is more than total assets for 6-13 months are rs.143199.62. Therefore the liabilities are more than the assets. This is a negative gap. So the company should take steps to ensure the liquidity position.

The total current liabilities for the above 1 year are rs.529926.82 is more than the total assets for the above 1 year rs.430354.8. Therefore the liabilities are more than the assets. This is a negative gap. So the company should take steps to ensure the liquidity position.

FINDINGS
SUGGESTIONS
CONCLUTION

FINDINGS

- **Alm** technique is aimed to tackle the market risks. Its objective is to stabilize and improve net interest income (**nii**).
- Implementation of alm as a risk management tool is done using maturity profiles and gap analysis.
- Alm presents a disciplined decision making framework for while at the same time guarding the risk levels.
- For the duration of up to 3 months, the has a positive gap rs 19226.33 per the year 2021 &rs72070.19 for the year 2020 however for the year 2023 there is a negative gap of rs 62548.39.
- For duration of 3-6 months, the has a negative gap of rs 10606.45 for the year 2021 &rs 30014.31 for the year 2022. In the year 2023 is able to maintain a positive gap of rs 62467.18.

- For the duration 6-13 months, the has positive gap of rs 19437.43 in the year 2023. However for the year 2022 & 2023, the gap is negative.
- For the time duration of above 1 year the has negative gap in all the 3 years is rs 24057.31 in the year 2021, rs 48585.94 in the year 2022 of& rs 99572.02 in the year 2023.

SUGGESTIONS

- They should strengthen its management information system (mis) and computer processing capabilities for accurate measurement of liquidity and interest rate risks in their books.
- 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.
- It is essential that remain alert to the events that effect its operating environment & react accordingly in order to avoid any undesirable risks.
- Icici requires efficient human and technological infrastructure which will future lead to smooth integration of the risk management process with effective business strategies.

CONCLUSION

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 then any other subject. With the possibility of managing risk near zero, the challenge becomes not how much risk can be removed.

financial services involve the process of intermediation between those who have financial resources and those who need them, either as a principal or as an agent. Thus, value breaks into several distinct functions, and it includes the intermediation of the following:

maturity preference mismatch, default, currency preference mis-match, size of transaction and market access and information.

REFERENCE

Title of the books	author
1. Risk management	gustavson hoyt
2. Management research magazine	p.m.dileep kumar
3. India financial system	m.y. Khan

Websites:

- Www.icici.sap.in
- www.rbi..org.com