PREFACE

The financial sector reforms, which began in the last decade of the twentieth century. That rapidly changed the face of Indian banking. It has not only led to phenomenal growth in terms of business volumes, network, staff & client base, but has also propelled the Indian banking industry to align itself to the global standards & practices in banking. Importantly in the new set up, the line demarcating the banks from other financial service institutions has also been disappearing. Under the reforms more and more banking institutions are adopting new service lines, designing innovative products and expanding their business horizons, their vulnerability to various risks is also increasing in the process. As a matter of fact the seeds of future misfortune are often sown in the fertile soil of today's prosperity, hence limiting the exposure against various risks in the banking business becomes the priority of the top management. The Indian banking industry which had been growing in a protected environment since nationalization in 1969 suddenly had to face stiff competition from the new generation private sector banks & multinational banks which had extremely efficient risk management systems of international standards incorporated within their internal processes & operational policies. In such a scenario, the Regulator (Reserve Bank of India) strongly felt that there was need for the bankers to be aware of the risks to which they were exposed to and the tools available for managing these risks.

The RBI has issued various guidelines in this direction. Most prominent among them was guidelines relating to the management of Assets & Liabilities in Indian Banks. These were issued vide circulars, DBOD No. BP. BC. 94/21. 04. 098 dated September 10th 1998 (draft guidelines) & DBOD No. 8/21. 040098/99 dated February 10th 1999, (final set of guidelines) for implementation by commercial banks for the financial year ending 1999-2000. These guidelines have helped the banks in developing a dynamic & integrated risk management system & process, based on the corporate strategy which forms a part of decision making process of the top management. This study presents a deep insight into the Asset Liability Management System which provides a comprehensive and profitable macro level framework for risk management in Commercial Banks.

The entire study is divided into Ten chapters:

The first chapter "Introduction" provides overall view of the concept and available framework, relevance of the study, objectives and the research methodology. The second chapter "Literature Survey" takes a comprehensive review of Basle Committee Recommendations & RBI guidelines & analyses various research publications. The third chapter "Risk Management in commercial Banks" provides an insight into the concept of overall risk management and the various approaches available for the same. Focus is provided on the purposes of ALM and different tools & techniques of ALM in overall risk management in commercial banks. The fourth chapter on the "Liquidity Risk Management" enshrines details of the fundamental & technical approaches of liquidity management and also includes monitoring & planning of liquidity. The fifth chapter "Interest Rate Risk Management" discusses the various components of Interest Rate Risk & appropriate tools & techniques available for management of Interest Rate risks. The sixth chapter "Credit Risk Management" demarcates the micro-level & macrolevel management of the credit risk and focuses on certain key parameters for its quantification. The seventh chapter "Foreign Exchange Risk Management" explains the foreign exchange risk in detail and also provides various methods adopted for hedging the same. The eighth chapter on "Decision Making & Implementation of ALM " basically deals with the implementation part of the ALM system within the current set up of commercial banks in India and the issues involved. The ninth chapter on the "Analysis of ALM in commercial banks" examines case studies of selected nationalized banks to test the hypothesis of this study. Finally, the tenth Chapter "Conclusion and Prognosis" draws down the inference of the present study and explores the possibility of further researches in the area and discusses about the Risk Based Supervision (RBS) in detail. Selected references of research studies carried out by other academicians & bankers have been incorporated in these chapters.

The concept of ALM is relatively new in India. This study will therefore serve as a guide for commercial bankers, academicians & researchers in the field of banking & finance, who want a detailed insight into the conceptual integrities of this System. Banks can

make use of our suggested reporting formats at the branch level for generating necessary database for its scientific analysis & decision making for effective implementation of ALM techniques & total balance sheet management.

Abhishek Varma