

## **“Inflow and Outflow Management: Opportunities and Challenges in Co-Operative Banks”**

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**Abstract:** *Good corporate governance is critical to efficient functioning of an entity and more so for a banking entity. Thus the need for professional management and healthy governance practices in urban credit cooperative societies/banks in the present competitive environment needs no emphasis. The banks perform the crucial role of transforming illiquid assets into more liquid demand deposits. Putting it more concretely banks perform the function of creating liquidity. The problem that arises is that under certain circumstances this leads to an assets liability mismatch that makes them susceptible to failure. The present research paper focus on the management of asset and liability in Bank.*

**Keywords:** *ALM-Assets & Liability management, GAP analysis*

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### **1. INTRODUCTION**

This chapter discusses issues in the assets and liabilities management and elaborates on various categories of risk that required to be managed. It examines strategies for assets and liabilities management from the assets side as well as the liability side, particularly in the Indian context. It also discusses the specificity of co-operative banks in India and the new information technology initiatives that beneficially affect assets-liability management. The emerging shapes of conglomerate financial services and their implications for assets and liabilities management are also described.

Assets and liabilities management basically refers to the process by which an institution manages its balance sheet in order to allow for alternative interest rate and liquidity scenarios. Banks and other financial institutions provide services which expose them to various kinds of risk like credit risk, interest risk, and liquidity risk. Assets and liabilities management is an approach that provides institutions with protection that makes such risk acceptable. Assets and liabilities management models enable institution to measure and monitor risk, and provide suitable strategies for their management. It is therefore appropriate for institutions (banks, finance companies, leasing companies, insurance companies, and others) to focus on assets and liabilities management when they face financial risks of different types. Assets and liabilities management includes not only a formalization of this understanding, but also a way to quantify and manage these risks. Further, even in the absence of a formal assets and liabilities management program, the understanding of these concepts is of value to an institution as it provides a truer picture of the risk/reward trade-off in which the institution is engaged.

Assets and liabilities management is a first step in the long term strategic planning process. Therefore, it can be considered as a planning function for an intermediate term. In a sense, the various aspects of balance sheet management deal with planning as well as direction and control of the levels, changes and mixes of assets, liabilities, and capital.

### **2. STATEMENT OF THE PROBLEM**

The financial service industry faces many new challenges: shareholders continuously ask for better performance and transparency, regulators enforce new and complex regulations, senior managers put pressure on staff to be more efficient, and with mergers and acquisitions expected to increase in the forthcoming years, and this too brings challenge and opportunity. In this changing environment, assets and liabilities managers need to understand the drivers of their business in the future and to organize themselves accordingly.

### 3. OBJECTIVES

- i) To study the structural liquidity.
- ii) To study the imbalance in the Balance Sheet of the long term and short sources.
- iii) To give remedial measures, if any.

### 4. METHODOLOGY

The methodology adopted for the study can be summarized as under. The methodology describes the logic behind selection of co-operative banks, city, sample selection, period under study etc.

For accomplishing the above objectives, collection of both primary and secondary data was called for. Primary Data was collected through Survey Method by administering separate structured interview schedules to the concerned set of respondents. The researcher personally visited to the co-operative banks under study and contacted the concerned authorities with their prior permission necessary data was solicited. Archival data was collected through Documentary Research Method. The secondary data in the form of archival information necessary for this investigation was collected mainly from the various libraries (academic), archives and Government published sources as well as the Internet(Web sites relating to the Study Topic) have been used.

### 5. HYPOTHESIS

1. There is a significance difference in fluctuating trend of total inflow during 2003 to 2007.
2. There is a significance difference of outflow during 2003 to 2007.

### 6. DATA COLLECTION

The primary data was collected through persons knowledgeable in various departments at various levels of management. The researcher also relied on balance sheets of the co-operative banks which are compiled by the co-operative banks on year to year basis method to gain first hand insight on assets, liability, capital and made detailed notes on them in person and while analyzing and interpreting the collected data.

### 7. SAMPLE DESIGN

The city of Kolhapur constitutes of 12 Co-operative banks, in the meantime 4 Co-operative Banks were merged in other co-operative banks. Therefore, there are 8 Co-operative Banks are existed. At the outset the researcher procured the list along with the addresses of the co-operative banks from the office of the Deputy Registrar Co-operative Societies of Kolhapur District .It was pre-decided to have a simple random sample for 2 co-operative banks. In order to carry out the data collection exercise more meticulous in Kolhapur city the researcher approached the co-operative banks and sought the prior permission and visited accordingly

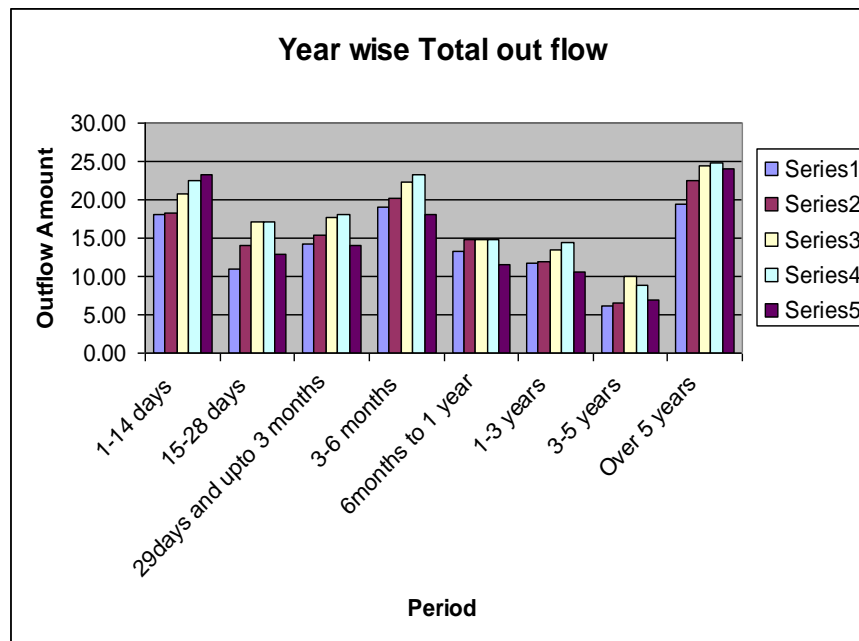
### 8. EMPIRICAL STUDY

#### Statement Showing Total Outflow of PARSHWANATH CO-OP BANK LTD. KOLHAPUR for the year 2002-03 To 2006-07

Table No 1. (Rs. In Crores)

YEAR	1-14 days	15-28 days	29days and upto 3 months	3-6 months	6months to 1 year	1-3 years	3-5 years	Over 5 years
2002-03	18.17	10.95	14.26	19.11	13.31	11.82	6.23	19.46
2003-04	18.33	13.94	15.34	20.12	14.83	11.97	6.51	22.47
2004-05	20.71	17.04	17.61	22.21	14.78	13.39	10.06	24.47
2005-06	22.42	17.16	18.08	23.26	14.79	14.36	8.87	24.82
2006-07	23.25	12.95	13.96	18.00	11.53	10.67	6.98	24.00

Graph No. 1



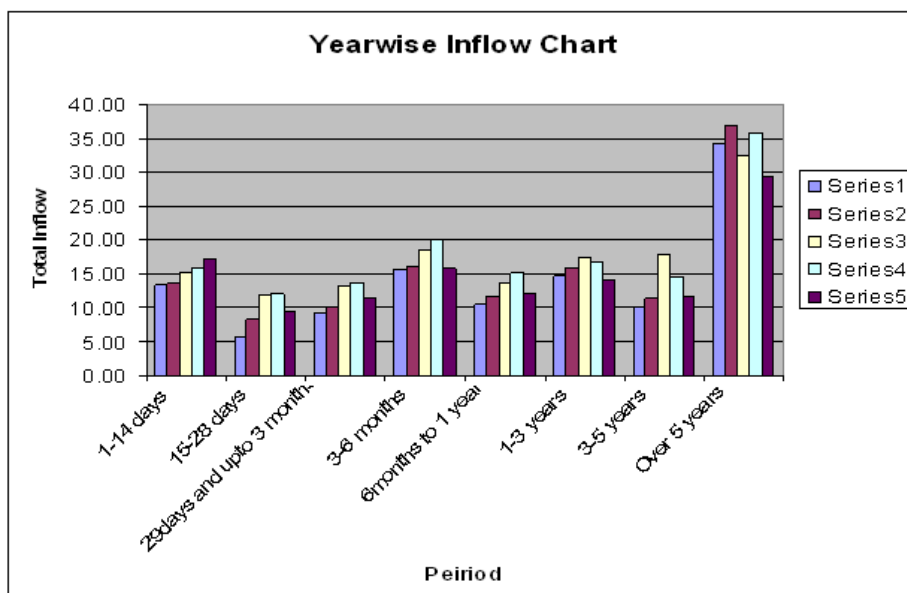
The above Table and Graph show that bucketwise Total Out Flow in the study period. This shows fluctuating trend since 2003-2007, the vertical year wise analysis of the above table in between 1-14 days shows increasing trend. Whereas remaining buckets shows fluctuating trend. This fluctuation is because of the maturity of the term deposit due earlier in the short run.

**Statement Showing Total Inflow of PARSHWANATH CO-OP BANK LTD. KOLHAPUR for the year 2002-03 To 2006-07**

Table No. 2. (Rs. In Crores)

YEAR	1-14 days	15-28 days	29days and upto 3 months	3-6 months	6 months to 1 year	1-3 years	3-5 years	Over 5 years
2002-03	13.31	5.79	9.17	15.67	10.46	14.73	9.96	34.23
2003-04	13.54	8.24	9.94	16.05	11.71	15.89	11.37	36.78
2004-05	15.19	11.86	13.23	18.50	13.76	17.38	17.87	32.47
2005-06	15.76	11.96	13.73	20.06	15.15	16.77	14.50	35.85
2006-07	17.33	9.46	11.56	15.71	12.04	14.15	11.69	29.37

Graph No 2



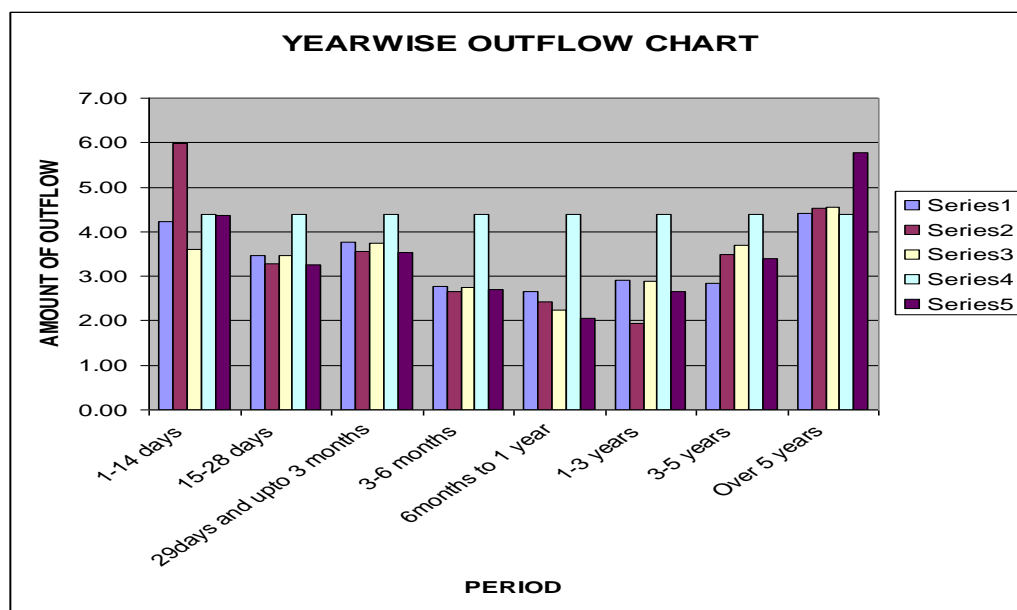
The above Table & relative Graph shows that the total year wise Inflow of cash horizontal in the study period shows fluctuating trend. Whereas vertical analysis of 1-14 days buckets shows increasing trend, on the other hand rest of the buckets shows fluctuating trend. This fluctuation trend because of the delay in recovering the loans & advances.

**Statement Showing Total Outflow of KOLHPUR MAHILA CO-OP BANK LTD. KOLHAPUR for the year 2002-03 to 2006-07**

Table No. 3. (Rs. In Crores)

YEAR	1-14 days	15-28 days	29days and upto 3 months	3-6 months	6months to 1 year	1-3 years	3-5 years	Over 5 years
2002-03	4.23	3.48	3.77	2.76	2.65	2.91	2.84	4.42
2003-04	5.98	3.28	3.55	2.65	2.42	1.94	3.48	4.53
2004-05	3.61	3.47	3.75	2.75	2.24	2.89	3.69	4.55
2005-06	4.38	4.38	4.38	4.38	4.38	4.38	4.38	4.38
2006-07	4.37	3.26	3.53	2.71	2.06	2.66	3.40	5.77

Graph No. 3



The above Table and Graph show that bucketwise Total Out Flow in the study period. This shows fluctuating trend since 2003-2007, the vertical year wise analysis of the above table in between 1-14 days shows increasing trend. Whereas remaining buckets shows fluctuating trend. This fluctuation is because of the maturity of the term deposit due earlier in the short run.

**Statement Showing Total Inflow of KOLHPUR MAHILA CO-OP BANK LTD. KOLHAPUR for the Year 2002-03 to 2006-07**

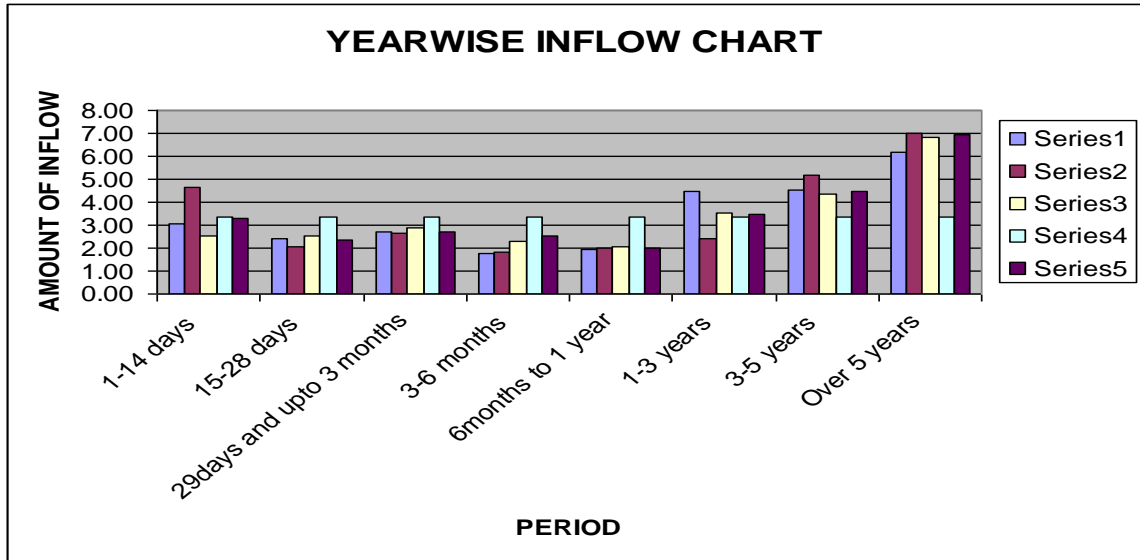
Table No. 4. (Rs. In Crores)

YEAR	1-14 days	15-28 days	29days and upto 3 months	3-6 months	6months to 1 year	1-3 years	3-5 years	Over 5 years
2002-03	3.05	2.41	2.69	1.75	1.93	4.50	4.52	6.19
2003-04	4.63	2.09	2.62	1.84	2.03	2.42	5.19	7.00
2004-05	2.52	2.52	2.89	2.27	2.06	3.53	4.35	6.82

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<b>2005-06</b>	3.34	3.34	3.34	3.34	3.34	3.34	3.34	3.34
<b>2006-07</b>	3.30	2.36	2.69	2.54	2.00	3.46	4.50	6.92

Graph No. 4



**9. TESTING OF HYPOTHESIS**

1. There is a significance difference in fluctuating trend of total inflow during 2003 to 2007. Based on the above table the calculated value of chi-square test is **0.02963** which is less than the table value (41.337) at 5% level of significance and 28 degree of freedom therefore hypothesis stands for accept. Hence it is conclude that there is no significant difference between fluctuating trends of total inflow during 2003 to 2007.
2. There is a significance difference in fluctuating trend of total outflow during 2003 to 2007.

Based on the above table the calculated value of chi-square test is **0.00194** which is much less than the table value (41.337) at 5% level of significance and 28 degree of freedom therefore hypothesis stands for accept. Hence it is conclude that there is no significant difference between fluctuating trends of total outflow during 2003 to 2007.

**10. FINDINGS**

On the basis of the data analyzed and interpreted following are the findings and suggestions:

1. It reveals that the banks under study are not serious about the Assets & Liabilities Management. They have not given due importance for ALM.  
 These banks are following the RBI guidelines regarding preparation of statements of structural liquidity, of course this was not mandatory for the Co-Op Banks, and it becomes mandatory from the F.Y. 2009-10. These banks under study for the period 2002-03 to 2006-07 have not submitted these periodical statements to the RBI. They have put these statements before the Board of Directors.
2. These banks have setup the ALM committees but the members of these committees are the Directors & some of the Officers. It doesn't consist any expert adviser having through knowledge about ALM.
3. These banks have not deputed any separate officer to look after the ALM.
4. These banks are not serious about getting the literature like RBI circulars, Books, Study Material etc. about ALM.
5. The bank staff is unaware about the techniques of ALM.

6. While preparing the structural liquidity statements the bank has not studied the behavior of Assets & Liabilities in the past.
7. The banks have not setup an ALM policy.
8. At present the ALM committee of Banks is meeting once in a quarter but the ALM committee should meet on monthly basis.
9. The banks don't have the necessary infrastructure i.e. specialized computer software for ALM.

## **11. SUGGESTIONS**

1. Since the Reserve Bank of India has made ALM mandatory from the financial year 2009-10, the Bank should follow the RBI guidelines and should study thoroughly the literature on ALM.
2. The Banks should take the experts advice about the ALM from the professional qualified advisor.
3. In order to have a proper liquidity every Bank should set up a separate full-fledged ALM department.
4. To create the awareness among the employees of the Bank, the Bank should conduct the training and awareness programme of the ALM.
5. To have the exact estimate of the maturity the ALM Department should study the behavior of the assets and liabilities.
6. The ALM Committee should meet once in a month and should form the ALM policy.
7. The Banks should equip the ALM department with the advanced Techno Savvy computer hardware and software.

To maintain the Tolerance Level below 20% limit in the short term buckets of 1-14 days and 15-28 days invest the funds in Short term investments.

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