FD 603: MANAGEMENT OF FINANCIAL INSTITUTIONS

Course Objective:

This Paper discusses the tools and techniques of management of banks and other financial institutions.

Learning Outcomes

- Understand the functioning of a financial institution.
- Understand the entire process of operating a bank and other financial institutions with respects to the rules and regulations prescribed by the regulators.
- Understand the problems faced by the banks like that of NPA or of liquidity challenge etc. and tools and techniques to manage them.

Course Contents:

Unit I **(2 weeks)**

Financial Intermediation; Kinds of Intermediation; Financial Institution and its kinds; An overview of the Indian financial system; Regulation of Banks, NBFCs & FIs; Products offered by Banks and FIs. CRR & SLR management; Capital Adequacy: Capital adequacy norms; Basel agreement-II&III; effect of capital requirements on bank operating policies.

References:

Saunders & Cornett ï ñFinancial Institutions Management ï A risk management approachò Tata McGraw Hill (Chapter 1 and 2)

Resti & Sironi ï ñRisk management and shareholdersجvalue in bankingò John Wiley (Chapter 20 and 21)

Unit II **(3 weeks)**

Statement of Financial Sector: Flow of Funds Accounts ï Sector wise and Instrument wise. Statements of Financial Institution: Analyzing Bankôs Financial Statement: The balance sheet; income statement; Cash Flow Statement; profitability, liquidity and solvency analysis; Performance Analysis of banks: CAMELS Risk system; KPIs; Data Envelopment Analysis. Asset Liability Management: RBI guidelines on asset liability management

References:

Justine Paul & Padmalatha Suresh-ñ Management of Banking and Financial Servicesò Perason (Chapter 6)

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Saunders & Cornett ï ñFinancial Institutions Management ï A risk management approachò Tata McGraw Hill (Chapter 6 and 13)

Unit III **(3 weeks)**

Institutional Risk Management: Interest Rate Risk; Market Risk; Credit Risk; Liquidity Risk; Operational Risk. Determination of Interest Rate. Theories of Interest Rates: Classical Theory; Loanable Funds Theory; Liquidity Preference Theory; Term Structure of Interest Rates. Interest Rate Risk Management: Measurement of Interest Rate Risk; Duration and its kinds; Convexity. Managing Interest Rate Risk: Repricing Gap Model, Maturity Matching Model, Duration Gap Model, Cash Flow Matching Model; Convexity Adjustments.

References:

Saunders & Cornett ï ñFinancial Institutions Management ï A risk management approachò Tata McGraw Hill (Chapter 7, 8, 9, 10 and 11)

Resti & Sironi ï ñRisk management and shareholdersجvalue in bankingò John Wiley (Chapter 1, 2, 3, 4 and 5)

Unit IV **(4 weeks)**

Credit & Liquidity Risk Management: Types of Assets, NPA & its types, Management of NPA, Measurement of Credit Risk ï Qualitative and Quantitative models. Modelling Credit Risk; Term Structure of Credit Risk; Managing Credit Risk: Credit Analysis and kinds of Loans; Pricing of Loans. Liquidity Risk Management: Measurement of Liquidity Risk; Measures of Liquidity Exposure; Causes of Liquidity risk: Asset-Side and Liability-Side; Managing Liquidity Risk: Purchased Liquidity management and Stored Liquidity management; Liquidity Planning; Deposit Insurance; Discount Window

References:

Saunders & Cornett ï ñFinancial Institutions Management ï A risk management approachò Tata McGraw Hill (Chapter 17, 18 and 19)

Text Books:

1. Saunders & Cornett ï ñFinancial Institutions Management ï A risk management approachò Tata McGraw Hill
2. Resti & Sironi ï ñRisk management and shareholdersجvalue in bankingò John Wiley

MANAGEMENT OF FINANCIAL INSTITUTIONS

Teaching Learning Process:

Class room lecture, Case study discussion, Numerical Problem solving, Class presentation on the assigned topic by students individually or in group, Workshop, Tutorials, Role play

Assessment Method

1. Internal evaluation of 25% marks
   a. Attendance 5% marks
   b. Two internal evaluations by the teacher with 10% marks each out of which one must be a class test and other may be another test or home assignment or presentation. Faculty may take more than two assignments and (or) tests but total will be only 20% marks.
2. End term University Exam of 75% marks

Key words:

Financial Intermediation, Capital Adequacy, Asset Liability Management, NPA, Data Envelopment Analysis, Duration Gap Model