

## **Reserve Bank of India to operationalise ALM system in banks**

**January 14, 1999**

Chief executives of banks have been advised by the Reserve Bank of India to put in place the Asset Liability Management system by April 1, 1999 in order to measure the risks. Keeping in view the constraints of the prevailing management information system and the level of computerisations, it was decided that banks will capture at least 60 per cent of the data on their assets and liabilities in the first year of implementation of ALM system.

The Reserve Bank of India had today invited chief executives of leading public, private and foreign banks to discuss the draft guidelines on asset-liability management system in banks. The meeting was presided over by Shri S P Talwar, Deputy Governor, Reserve Bank of India. Shri M S Verma, Honourary Advisor to the Reserve Bank was also present. As a significant step after introduction of prudential norms in 1992, the Reserve Bank of India had issued the draft guidelines in September last year for equipping the banks to manage market risks in a scientific manner. The ALM system in banks was proposed to be introduced from April 1, 1999.

Banks have been advised to initially report the data to the Reserve Bank on a quarterly basis. Banks will simultaneously work on putting in place Management Information Systems to capture 100 per cent of data and also move over to a fortnightly reporting system by April 1, 2000. It was also agreed that it will be upto the individual bank's board to decide on the constitution of a Committee to oversee the ALM system of the bank.

Earlier, while reacting to the Reserve Bank's draft guidelines, the banks expressed certain difficulties in implementation of the ALM system. The difficulties pertained mainly to collecting reliable data - which is crucial to putting in place an effective ALM system - in the absence of computerised environment, estimation of gaps on account of unutilised working capital limits, volatile nature of short-term deposits and treating export refinance as a source of cash inflows, etc. Appropriate training to the staff especially in interpretation of data for asset-liability management was also pointed out to be a significant issue. The banks, however, appreciated the need for having integrated risk management systems in banks in the context of volatility in the money/forex market.

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