

DSE 7: MANAGEMENT OF FINANCIAL INSTITUTIONS

CREDIT DISTRIBUTION, ELIGIBILITY AND PRE-REQUISITES OF THE COURSE

Course title & Code	Credits	Credit distribution of the course			Eligibility criteria	Pre-requisite of the course (if any)
		Lecture	Tutorial	Practical/ Practice		
Management of Financial Institutions DSE-7	4	3	1	0	Class XII	NA

Course Objective(s):

- This course aims at enabling the students to understand and to contribute to the strategic operational policies and risk management practices of financial institutions in a competitive environment.

Learning Outcomes:

After studying this course the student will be able:

- 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 1: Foundation and Key Concepts (9 hours)

Financial Intermediation: Types of Financial Services-Depository Institutions, Finance Companies, Security Firms and Investment Banks, Mutual Funds and Hedge Fund Companies, Insurance Companies. An Overview of the Indian Financial System; Regulation of Banks, NBFCs & FIs, Capital Adequacy: Capital adequacy norms; Basel agreement-II&III, CRR & SLR management.

Unit 2: Financial Statement Analysis of Banks (12 hours)

Statement of Financial Sector: Statements of Financial Institutions: Analysing Bank's Financial Statement: The balance sheet; income statement; Cash Flow Statement; profitability, liquidity and solvency analysis; Sources and Uses of Banks Funds, Performance Analysis of banks: CAMELS Risk system; Key Performance Indicators; Data Envelopment Analysis, Asset Liability Management: RBI guidelines on asset liability management.

Unit 3: Measuring and Managing Risk Part 1 (12 hours)

Institutional Risk Management: Interest Rate Risk: Level and Movement of Interest Rates, 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, Duration Gap Model, Cash Flow Matching Model; Convexity Adjustments. Credit Risk: Individual Loan Risk, Return on Loans , Measurement of Credit Risk- Models of Credit Risk Measurement and Pricing, Qualitative and Quantitative Models, Loan Portfolio and Concentration Risk, Moody's Analytics Portfolio Manager Model, Loan Volume-Based Models, Loan Loss Ratio-Based Models, Regulatory Models. NPA & its types, Management of NPA Market Risk; Liquidity Risk, Operational Risk.

Unit 4: Measuring and Managing Risk Part 2

(12 hours)

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. Market risk; Banking Book and Trading Book, The Riskmetrics Model, The Historic (Back Simulation) Model, The Monte Carlo Simulation Approach, Regulatory Models: The Bis Standardized Framework, Off- Balance Sheet Risk: Off-Balance-Sheet Activities, Returns and Risk of Off-Balance-Sheet Activities; Technology and Other Operational Risk, Securitization.

Essential Readings:

1. Saunders & Cornett – *“Financial Institutions Management – A risk management approach”* Tata McGraw Hill.
2. Paul, J & Suresh, P -*“ Management of Banking and Financial Services”* Pearson.

Additional Readings:

1. Resti & Sironi – *“Risk management and shareholders” value in banking”*. John Wiley.
2. RBI Master Circulars and other Regulatory documents applicable at the time of teaching the course.

Examination scheme and mode:

Evaluation scheme and mode will be as per the guidelines notified by the University of Delhi.