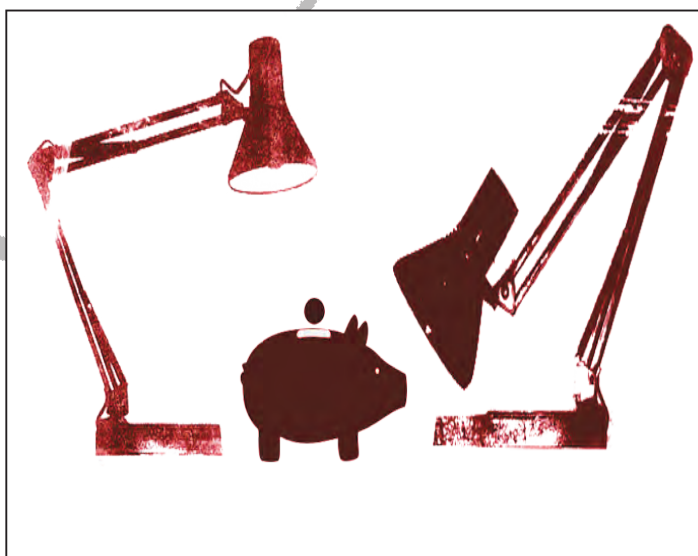
EDITORIAL

Greetings!!!

Due to changes in banking regulation, developments in technological and financial innovations, inverse interest rate structure, high volatilities on financial markets, and the severe competition between financial institutions, there is an urge of need to emphasis profitability and efficiency analysis in banking. The Banks are essentially engaged in the business of financial intermediation which involves mobilization of deposits and granting of loans and advances to the needy. While mobilization of deposits and funds require a cost in the form of interest paid on deposits and borrowings, the lending operations are the basis of income stream for the banks. The banks need to manage the size of deposits and borrowings on the side of liability management so as to commensurate with their requirement of funds to be deployed in the form of loans and advances.



This is the era of liberalization and globalization and each and every sector of the economy has to be conscious regarding their threats and risks. Banks are also exposed to cut-throat competition and have to face various types of financial and non-financial risks. There are three main categories of risks as follows:

- Credit Risk,
- Market Risk &
- Operational Risk

The safety and soundness of Indian banking is an important prerequisite for its sustainable growth. It largely depends upon the maintenance of adequate capital to cover up the inherent risk, proper matching of assets and liabilities and adequate control over excessive leverage.

Non-performing assets in the Indian banking system have increased to an all-time high during the last few years. Despite restructuring the loan portfolio remains under stress. Thus, there is need to capture stressed assets for focused attention on assets quality in banks. Due diligence process in credit evaluation, disbursement of loans and monitoring of accounts are found to be inadequate during the period of the loan. The ability of public sector banks to manage the quality of their asset portfolio has remained weak on several accounts such as poor credit appraisal and ignorance of early indicators of deterioration in asset quality. It is evident from the trend of growth in the number of stressed advances that the growth rate in stressed assets is comparatively lower in case of private and foreign banks.

Basel III introduces new capital, leverage, and liquidity standards to reinforce regulation, supervision, and risk management of the financial sector. It represents an effort to fix the gaps and lacunae in Basel II that surfaced during the financial crisis. Basel III addresses both short term liquidity risk management and long term solvency risk management through Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) respectively. It encourages banks to avail stable source of funding relative to the liquidity profile of assets including off-balance sheet commitments. Basel III framework helps to reduce risk of systematic banking crises as the enhanced capital and liquidity buffers together lead to better management of probable risk emanating due to counterparty defaults and / or liquidity stress circumstances. It also addresses all these issues with an aim to improve the ability to absorb shocks arising from financial and economic stress.

This issue also presents a good number of articles on the cover story theme 'Strengthening Indian Banking System' by distinguished experts and authors as well as interview from industry stalwart. We look forward to constructive feedback from our readers on the articles and overall development of the journal. Please send your mails at *editor@icmai.in*. We thank all the contributors to this important issue and hope our readers enjoy the articles.