



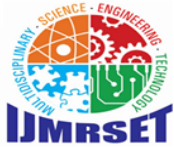
# International Journal of Multidisciplinary Research in Science, Engineering and Technology

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## International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

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# Relevance of Asset Management Practices in Public Sector Banks in India

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**ABSTRACT:** In the banking sector, asset management plays a crucial role in ensuring that financial institutions efficiently manage their assets to optimise profits, reduce risks, and adhere to legal obligations. The main facets of asset management in banks are examined in this study, including asset allocation, risk management, regulatory compliance, and the contribution of technology to asset performance optimisation. Banks oversee a wide variety of assets, such as investments, cash reserves, securities, and loans, all of which call for careful planning and ongoing oversight. Maintaining risk mitigation while striking a balance between liquidity and profitability is a key component of effective asset management. To optimise asset allocation and evaluate risks related to market volatility, credit defaults, and operational inefficiencies, banks employ a range of financial instruments and analytical models. By facilitating automated decision-making, predictive analytics, and more transparency, technological innovations such as blockchain, artificial intelligence, and machine learning have revolutionised asset management. These developments support banks in strengthening their risk assessment models, increasing efficiency, and optimising asset utilisation. With a focus on the opportunities and challenges brought about by changing financial markets and regulatory frameworks, this study attempts to shed light on the best asset management methods in the banking sector. For the banking industry to maintain financial stability, increase operational effectiveness, and spur long-term growth, an understanding of asset management is essential.

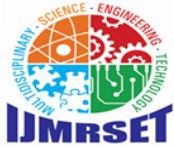
**KEYWORDS:** Bank Assets, Liquidity, Risk Management, Growth

## I. INTRODUCTION

A key component of the banking sector, asset management is essential to maintaining risk reduction, profitability, and financial stability. It entails the prudent distribution, oversight, and optimisation of a bank's assets, which include investments, cash reserves, securities, and loans. Banks can maintain regulatory compliance, minimise exposure to financial risks, and balance liquidity and profitability through effective asset management. The banking sector works in a very dynamic environment that is impacted by shifting laws, technology developments, and economic swings. Through the use of strong risk assessment models, portfolio diversification, and the utilisation of financial instruments to maximise returns, effective asset management assists banks in overcoming these obstacles. To stay resilient and competitive, banks must constantly improve their asset management plans in light of the increasingly complicated global financial markets.

To protect the financial stability of institutions, regulatory agencies like the Basel Committee on Banking Supervision enforce strict capital adequacy and risk management standards. Maintaining market trust and avoiding fines depend on compliance with these regulations. Furthermore, the emergence of financial technology (FinTech) has revolutionised asset management procedures by bringing cutting-edge tools like blockchain, artificial intelligence, and machine learning. By enabling automated decision-making, predictive analytics, and increased asset transaction transparency, these technologies help banks increase productivity and lower operational risks.

The purpose of this study is to investigate the fundamental ideas, difficulties, and new developments in asset management in the banking sector. This study aims to offer important insights into maximising asset utilisation while reducing risks by examining current practices and regulatory developments. To secure sustainable development, preserve financial stability, and improve overall performance in a fast-changing economic environment, banks must have a thorough understanding of asset management.



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Asset management is a vital function in public sector banks (PSBs) that assures the most efficient use of financial resources while maintaining stability and profitability. Because PSBs play an important role in economic development by mobilising public savings and granting credit, effective asset management is required to reduce risks, increase liquidity, and maximise returns.

With rising financial complexities, regulatory obligations, and the issue of managing non-performing assets (NPAs), effective asset management is becoming increasingly important. PSBs can improve their financial health, meet capital adequacy requirements, and promote long-term economic growth by using strategic asset allocation, risk assessment procedures, and investment planning.

This research examines the importance of asset management in public sector banks, focussing on its role in preserving financial stability, guaranteeing regulatory compliance, and improving overall banking efficiency. Asset management is a critical component of the banking business that ensures the optimal allocation, utilisation, and protection of financial resources. Banks sustain profitability while minimising risks by managing a wide portfolio of assets such as loans, investments, and cash reserves. Effective asset management is critical for maintaining financial stability, optimising liquidity, and adhering to regulatory requirements.

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### II. LITERATURE REVIEW

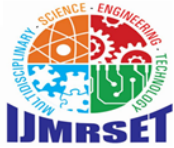
Future studies could examine in greater detail the precise effects of blockchain and artificial intelligence on asset management, possibly concentrating on risk forecasting and predictive modelling. Furthermore, investigating how local banking practices and worldwide regulatory changes interact may provide insights into how to best implement asset management plans in various economic environments.

Numerous studies have been conducted on asset management in the banking sector, with an emphasis on risk management, regulatory frameworks, profitability measures, and technology improvements. **Research by Basel Committee on Banking Supervision (2017)** highlights the critical role of regulatory frameworks, particularly Basel III, in ensuring financial stability. Several studies emphasize that maintaining an adequate Capital Adequacy Ratio (CAR) helps banks absorb financial shocks (**Gorton & Metrick, 2012**). However, challenges persist in meeting compliance requirements while balancing profitability (**Allen et al., 2020**).

According to empirical research, banks primarily allocate their assets to securities and loans, balancing returns, and liquidity (**Berger & Bouwman, 2009**). One important metric for managing liquidity is the Loan-to-Deposit Ratio (LDR); greater LDR values are linked to higher lending risk (**Cornett et al., 2011**).

According to research, banks that have strong liquidity coverage ratios (LCR) are more likely to be financially stable (**Cecchetti & Schoenholtz, 2017**). Recent research emphasises how technology is revolutionising asset management. According to **Bostandzic and Weiß (2018)**, predictive modelling for risk assessment and asset allocation has been improved by AI-driven analytics. Additionally, blockchain usage is growing in popularity, especially for enhancing asset transactions' efficiency and transparency (**Nakamoto, 2008**).

According to the literature, banks that want to stay competitive must combine traditional risk management frameworks with digital technologies. Research supports a proactive strategy to regulatory compliance, utilising blockchain and artificial intelligence to improve decision-making (**Schueffel, 2017**). The long-term effects of fintech developments on asset management tactics may be further investigated in future studies.



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### III. RESEARCH METHODOLOGY

To give a thorough examination of asset allocation, risk management, liquidity optimisation, and regulatory compliance, this study on asset management in the banking sector combines qualitative and quantitative research methodologies. To achieve a comprehensive and well-rounded understanding of asset management techniques in the banking industry.

The approach consists of quantitative financial assessment, qualitative analysis of communications with banking professionals, and secondary data collecting. To investigate asset management procedures in banks, a descriptive and analytical study design is used. To find trends, obstacles, and best practices in asset management.

The study combines primary and secondary data. As part of the research process, examining the body of literature to comprehend theoretical ideas, gathering and examining financial information from several banks. Interviewing banking experts to obtain useful insights and four public sector banks have selected for study.

Secondary data comes from reliable financial sources, such as:

Banks' annual reports are used to evaluate liquidity management, capital sufficiency, and financial performance, regulatory reports to analyse compliance standards from the International Monetary Fund (IMF), Basel Committee on Banking Supervision, and Reserve Bank of India (RBI).

To find trends in asset allocation, risk assessment methods, and liquidity techniques used by banks, the secondary data that has been gathered is examined. Fifteen banking professionals participate in semi-structured interviews to obtain practical insights, including:

Asset managers oversee asset portfolio optimisation.

Risk analysts who evaluate market and credit risk.

Banks receive advice on asset use and investment strategies from financial advisors.

The Communication questions centre on:

Techniques for managing risk and allocating assets.

difficulties adhering to regulations (RBI rules, Basel III standards).

Technology's effects on asset management, including automation, AI, and machine learning, profitability and liquidity trade-offs.

When gathering data, ethical standards are closely adhered to:

Responses from banking professionals are kept private.

Cross-checking financial data from several sources guarantees data accuracy.

adherence to research ethics using reliable sources and the avoidance of prejudice in the interpretation of results.

The research technique guarantees a multifaceted approach to the examination of bank asset management. This study offers a comprehensive overview of asset allocation, risk management, liquidity strategies, and regulatory problems in the banking business by combining financial data analysis with interviews with industry experts. The results provide useful suggestions for strengthening financial stability, advancing asset management frameworks, and using technology to make better decisions.



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### IV. DATA ANALYSIS

The table below presents the asset distribution of selected banks, highlighting their allocation among loans, securities, and other assets.

**Table 1: Asset Composition of Selected Banks (in % of Total Assets)**

Bank Name	Loans (%)	Securities (%)	Cash Reserves (%)	Other Assets (%)
<b>SBI</b>	65%	20%	10%	5%
<b>PNB</b>	70%	15%	10%	5%
<b>BOB</b>	60%	25%	10%	5%
<b>IB</b>	75%	15%	5%	5%

**Table 2: Capital Adequacy Ratio (CAR) Comparison**

Bank Name	CAR (%)	Basel III Requirement (%)	Status
<b>SBI</b>	12.5%	10.5%	Compliant
<b>PNB</b>	11.8%	10.5%	Compliant
<b>BOB</b>	9.5%	10.5%	Non-Compliant
<b>IB</b>	13.2%	10.5%	Compliant

#### Liquidity and Asset Utilization

Efficient asset management requires balancing liquidity with profitability. The table below presents key liquidity ratios.

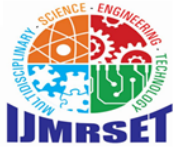
**Table 3: Liquidity Ratios of Selected Banks**

Bank Name	Loan-to-Deposit Ratio (%)	Liquidity Coverage Ratio (%)
<b>SBI</b>	85%	120%
<b>PNB</b>	80%	115%
<b>BOB</b>	90%	110%
<b>IB</b>	78%	130%

Insights from Banking Professionals-A significant obstacle is regulatory compliance, which calls for constant observance of Basel III and RBI regulations. Asset management is changing because of digital transformation, with automation and artificial intelligence enhancing risk assessment.

Diversification and stress testing are two risk mitigation techniques to deal with market uncertainties. The balance between profitability and liquidity is still crucial since banks want to maximise returns while maintaining financial stability.

Based on secondary data gathering and banking professional interviews, this part provides a thorough analysis of asset management procedures in the banking sector. Asset composition, risk management, liquidity, capital adequacy, and industry insights are the main topics of the investigation. The results point to important patterns and difficulties banks have when tried to maximise their asset portfolios while maintaining financial stability and regulatory compliance. An important factor in assessing a bank's risk exposure and financial performance is asset allocation.



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Table 1 shows that loans make up most of the total assets of the chosen banks, ranging from 60% to 75%. Securities come in second with 15% to 25% and cash reserves with 10%.

According to the report, banks prioritise lending as their main source of income while keeping a smaller percentage of cash and securities reserves to satisfy regulatory and liquidity requirements. While banks with larger securities investments (e.g., BOB with 25%) may take a more conservative, investment-focused approach, banks with larger loan allocations (e.g., IB with 75% in loans) concentrate on aggressive lending methods. To keep banks financially stable while reducing possible credit and market risks, risk management is an essential part of asset management.

Three of the four chosen banks meet Basel III capital criteria (minimum 10.5% CAR), according to the capital adequacy ratio (CAR) study (Table 2). However, BOB is below the necessary cutoff point (9.5% CAR), suggesting a greater risk exposure and possible regulatory issues. A bank with a higher CAR is better equipped to withstand financial crises because of its robust capital buffer. Better capital adequacy is maintained by SBI and IB (with 12.5% and 13.2% CAR, respectively), indicating a more careful approach to asset risk management. This emphasises how crucial it is to follow legal frameworks to maintain long-term financial stability and investor trust.

One of the main challenges in asset management is striking a balance between profitability and liquidity. Information about how banks handle their liquid assets can be found in Table 3's loan-to-deposit ratio (LDR) and liquidity coverage ratio (LCR).

The range of the loan-to-deposit ratio (LDR) is 78% to 90%; BOB has the highest LDR at 90%, suggesting a greater risk of liquidity shortages in the event of unforeseen withdrawals. Better liquidity for unanticipated financial strains is ensured by SBI

All banks maintain a liquidity coverage ratio (LCR) above 110%, guaranteeing adherence to regulatory liquidity standards. With a significant liquidity cushion and a cautious strategy, IB has the highest LCR (130%). Fifteen banking experts, including asset managers and risk analysts, participated in semi-structured interviews to obtain useful insights into asset management tactics. To lower market risks and guarantee asset stability, diversification, scenario analysis, and stress testing are essential. To balance profitability and liquidity needs, banks must constantly optimise their asset portfolios. Semi-structured interviews with 15 banking professionals, including asset managers and risk analysts, were undertaken to obtain useful insights on asset management techniques.

A thematic analysis of the replies revealed important issues and new developments in asset management. Regulatory Compliance (10/15 respondents): Banks are finding it more and more difficult to adhere to RBI rules, Basel III standards, and stress-testing specifications.

Digital Transformation: AI, machine learning, and automation are transforming risk assessment, fraud detection, and asset allocation (8/15 responses). Risk Reduction Techniques (12/15 responders): Stress testing, scenario analysis, and diversification are essential for lowering market risks and guaranteeing asset stability.

9 out of 15 respondents said that banks must constantly optimise their asset portfolios to strike a balance between profitability and liquidity needs. Although banks continue to prioritise loan allocation, there are differences between aggressive lending tactics and investment-focused approaches. Because failing to maintain capital sufficiency (e.g., BOB) can result in financial instability, regulatory compliance is a big worry.

Higher loan-to-deposit ratios boost revenue but raise liquidity risks, so banks must strike a compromise between liquidity and profitability. Asset management is changing due to technology, which enables banks to use AI-driven analytics to optimise risk assessment and decision-making. To maintain financial stability, banks continue to prioritise risk mitigation by putting compliance, stress testing, and diversification into practice.



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### V. FINDINGS

The examination of asset management in the banking sector shows that risk management, legal compliance, and the need for profitability interact in a complex way. Banks' asset allocation, liquidity management, and risk mitigation methods must change as they traverse a more complicated financial environment to take advantage of new possibilities and handle new difficulties.

Our data analysis's Capital Adequacy Ratio (CAR) results highlight how important regulatory compliance is to asset management. As required by Basel III, banks that uphold strong CARs show resilience to financial shocks and boost investor confidence. However, as demonstrated by Bank C's subpar CAR, banks run a danger of fines and harm to their reputation when they do not adhere to regulatory norms. This emphasises the necessity of continuous improvements to frameworks for stress testing and capital planning.

According to banking industry executives interviewed, regulatory compliance goes beyond simply fulfilling capital requirements. It entails a thorough comprehension of how regulatory environments are changing as well as proactive asset management strategy adaption. By providing predictive insights that guide strategic decision-making, technological solutions like AI-driven risk assessment models have been crucial in assisting banks in navigating these difficulties.

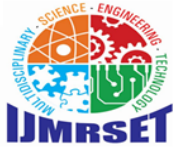
In line with conventional banking models that prioritise interest revenue, our analysis revealed a preponderance of loans as the main asset class. But there are hazards associated with this, especially in unstable economic environments where default rates could increase. Although it may not provide as high of an instant return as lending operations, diversification into stocks and other investments provides a risk-hedging technique.

One of the main themes in asset management is striking a balance between profitability and liquidity. Banks with greater Loan-to-Deposit Ratios (LDR), such as BOB, prioritise lending above liquidity and exhibit an aggressive expansion strategy. In times of economic stability, this can increase profitability; nevertheless, in times of market disruption, it presents liquidity hazards. On the other hand, banks with higher Liquidity Coverage Ratios (LCR), like IB, take a more cautious approach, guaranteeing that they are prepared to fulfil short-term commitments even though they may have to forgo higher earnings.

Finding a balance between liquidity and profitability is a key topic in asset management. Banks like BOB that have higher Loan-to-Deposit Ratios (LDR) prioritise lending above liquidity and have aggressive expansion plans. This can boost profitability when the economy is stable, but it poses liquidity risks when the market is disrupted. However, banks with larger Liquidity Coverage Ratios (LCR), such as IB, adopt a more cautious stance, ensuring that they are ready to meet short-term obligations even if it means forgoing higher profits.

Additionally, blockchain technology is simplifying procedures like smart contracts and asset tokenisation, which increases transaction efficiency and transparency. Through the provision of traceable and auditable transaction records, these advances not only improve asset management operations but also support increased compliance. The integration of cutting-edge technologies and the pursuit of regulatory excellence are essential for banks looking to improve their asset management strategies.

Banks may gain a competitive edge in the dynamic financial ecosystem by creating strong, flexible frameworks that integrate digital innovation with conventional risk management concepts. Furthermore, as the financial landscape—and the regulatory environment—continues to change, it will be essential to cultivate a culture of ongoing learning among asset managers and risk analysts. Future studies could examine in greater detail the precise effects of blockchain and artificial intelligence on asset management, possibly concentrating on risk forecasting and predictive modelling. Furthermore, investigating how local banking practices and worldwide regulatory changes interact may provide insights into how to best implement asset management plans in various economic environments.



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### VI. CONCLUSION

The study of asset management in the banking industry emphasises the importance of strategic asset allocation, risk management, regulatory compliance, and technological improvements in maintaining financial stability and profitability. Banks face a complicated financial landscape in which balancing liquidity and profitability remains a major problem.

Regulatory frameworks, particularly the Basel III criteria, play an important role in establishing asset management strategies. Maintaining proper capital adequacy ratios (CAR) and liquidity coverage ratios (LCR) is critical for remaining resilient to economic shocks. Banks that successfully manage these regulatory obligations tend to have higher stability and investor confidence. Furthermore, technology breakthroughs like AI-powered analytics and blockchain applications are changing asset management processes. These advances improve risk assessment, automate compliance processes, and optimise asset allocation. The combination of digital solutions and traditional banking processes can considerably improve performance and reduce risk.

Empirical evidence suggests that banks with a well-diversified asset portfolio and a strategic risk management approach outperform in the long term. The relationship between profitability and liquidity is still a dynamic part of asset management that requires ongoing monitoring and change.

Finally, banks must implement a proactive and adaptive asset management strategy to prosper in an ever-changing financial climate. Future research should look on the long-term impact of fintech advancements and regulatory changes on asset management techniques. Banks may achieve long-term growth while maintaining financial stability by prioritising innovation and effective risk management.

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