**IMPACT OF LIQUIDITY RISK MANAGEMENT IN ENSURING PROPER MANAGEMENT OF FUNDING IN THE BANKING INDUSTRY OF INDIA**

**Abstract**

Chapter 1: Liquidity risk management is important to ascertain sound financial structure in the banking industry of India. The chapter analyses the relationship between liquidity risk practices and funding where difficulties such as non-performing assets and changes in the regulation through problem statements, rationale, aims, objectives and research questions. It also covers the advancement of technology and further discusses the ways to strengthen organizational and economic robustness for long-term sustainability which also signifies in this study.

Chapter 2: The second chapter demonstrated the concept of “liquidity risk management” and the way it manages the funding and financial condition of the banks. The major benefits of “liquidity risk management” and its impact in managing the obligations have been demonstrated thoroughly in the study. The issues in maintaining “liquidity risk” in the banks and its influence in the financial condition have been reviewed properly in this chapter. The section has also summarised the strategic solutions for banks to incorporate liquidity risk management, with theoretical views of bank liquidity requirements.

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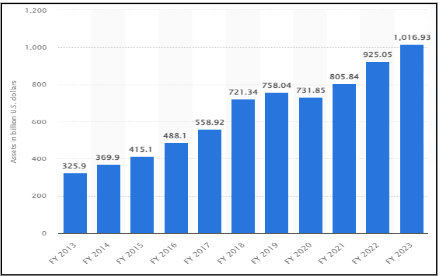
# Chapter 1: Introduction

## 1.1 Introduction

Liquidity risk management has become an important element in the banking industry especially in a growing economy such as India. Banks have access to sufficient cash that can enable them meet their obligations thereby boosting financial stability to avert incidences of insolvency. In the case of India’s banking industry with issues including non-performing assets and changes in regulation and bifurcation, strong liquidity risk management is imperative. The present study aims to investigate the extent to which liquidity risk management affects proper funding in the context of Indian banks and reasons for creating a healthy banking system.

## 1.2 Background

Liquidity risk remains a key factor that calls for effective management to ensure that banking institutions are sustainable and safe especially in an evolving banking scenario in India. Credit risk refers to the possibility of non-payment by the borrower while liquidity risk relates to the ability of a bank to meet its short-term obligations due to mismatches between assets and liabilities (Koppad, 2020). Banking system of India is a prime mover of the financial system of a nation, providing funds for economic activities for different sectors, ventures and people in the economy. However, there are several hurdles that affect the Indian banking industry’s approach to liquidity management as follows. Challenges are legal issues, market conditions, and high incidences of NPAs within the banking systems of the respective countries (Narwal and Pathneja, 2020). The policies governing the provision of funds for lending established by the central bank of India, the Reserve Bank of India (RBI), require commercial banks to hold sufficient liquidity both to prevent local crises and to safeguard depositors. Therefore, satisfying these regulations while at the same time enhancing and improving the liquidity management procedures in banks is always a toss-up.



#### Figure 1.1: Total asset amount of Indian private banks rising

(Source: Statista, 2023)

The form and scope of liquidity risk in the Indian banking environment has dynamism that has responded to changing economic realities as well as global financial architecture. The financial meltdown of 2008 exposed many financial institutions to high levels of liquidity risk hence pushing regulators globally and including the RBI to revamp their liquidity risk management. Over the years, the developments in technology and application of digital processes have also impacted the approaches towards the management of liquidity risks in Indian banks. In 2023, India's commercial and public banking industries had asset values of approximately $1016 billion and $1686 billion (IBEF, 2024). Thus, public sector banks held over 58% of the entire banking asset worth. The Indian private banking sector has seen a significant increase in asset value. In 2023, Indian private banks' asset value reached $1016.3 billion, up from $925 billion in 2022 (Statista, 2023). Thus, Indian banks have applied to diversify their funding sources to maintain financial values.

Banks have monitored liquidity status and number and value of liquid assets for accurate forecasts and fast reactions to the liquidity shifts due to advances in such technologies as tools for forecasting of the liquidity status, constant monitoring of the liquidity indicators, and developed risk (Sharma and Choubey, 2022). It is assessing a good practice in liquidity risk management to offset funding risk and promote financial robustness in the Indian banking sector. Thus, the findings representing the way liquidity risk management affects funding stability can identify trends in the development of efficient principles of management for creating conditions for sustainable growth and increased resistance to economic risks and fluctuations in the banking sector.

## 1.3 Research aims and objectives

**Aim**

The study aims to examine the effect of liquidity risk management on adequate capital management in India's banking industry.

***Objectives***

* To explore the concepts of "Liquidity Risk Management" and "Funding in the Banking Industry" in India.
* To evaluate the advantages of "Liquidity Risk Management" in managing funding in India's banking industry
* To find issues in controlling liquidity risk management for proper funding in the Indian banking industry.
* To suggest effective strategies for managing liquidity risk and finance in India's banking industry.

## 1.4 Research questions

* How does liquidity risk management provide proper funding management in Indian banks?
* What are the primary benefits of incorporating good liquidity risk management procedures into the Indian banking industry's funding operations?
* What are the key issues that Indian banks confront in managing liquidity risk and ensuring enough funding?
* What techniques may be advised to improve liquidity risk management and financial stability in the Indian banking sector?

## 1.5 Problem statements

The failure in managing the short-term liquidity risks in the Indian banking sector might hamper the timely availability of funds as a result of the following gaps. Unfavorable management procedures might worsen balance sheet risks, result in high credit costs, and open fewer development prospects than for banks, thus hindering the system stability and efficiency.

## 1.6 Significance of study

The insights derived from the liquidity risk management study in the context of the Indian banking sector has key implications for financial stability and regulatory compliance as well as the nation’s economy. Liquidity risk management is highly central for the fact aiding the banks to align with prompt settlement of obligations besides guaranteeing continuity of operations (Satya Krishna Sharma *et al.,* 2022). Thus, analyzing and improving liquidity risk management practices in the context of the Indian banking Industry, in turn has a strategic importance in the country’s economy to protect depositors’ confidence and investors’ trust ensuring economic growth.

The study contributes knowledge to policymakers and other regulatory bodies such as the RBI, for the enhancement of frameworks addressing the issue of liquidity risks. Thus, determination of such approaches and practices can help the banks overcome negative impacts of the shocks to enhance the resilience to the financial crises, and contribute to the lending agendas necessary for the economic growth (Sidhu *et al.,* 2022). Moreover, the study adds a concept on financial risk management through exploring the unique issues and possibilities within the Indian banking arena. This knowledge improves their management of liquidity risk and optimizes their resource use, funding expenses, and revenue. Thus, the study contributes to a stable and sustainable banking sector for the banks in India to hike economic values.

## 1.7 Research rationale

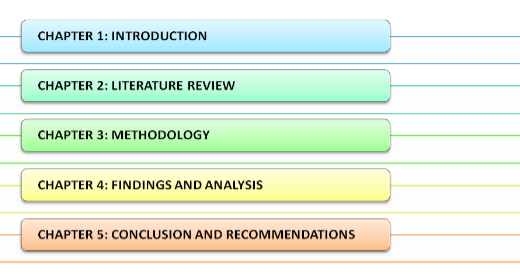
The Indian banking system may fail to properly manage the liquidity risk that results in inadequate amounts of money to address the short-term commitments. Constraints like the regulatory framework, and bit pops in the market and non-performing assets or NPAs are formidable. Lack of adequate management of liquidity risk may lead to an enlargement of the financial instability and cost of facilities that can hinder effective funding of activities by the banking sector.

Liquidity risk managers in the Indian banking system further affect financing security and business going forward. Liquidity risk management may cause serious deficiencies in liquidity to meet deposit withdrawals and other short-term debt obligations. The banking market in India is expected to exhibit significant growth in net interest income, with an estimated almost $459.60 billion by 2024 (Statista, 2024). This leads to solvency problems, with negative effects on depositor confidence and the financial system. Besides, financial institutions such as banks exposed to such uncertainties as regulatory changes or economic fluctuation in the economy of India need to adequately manage the liquidity risk. Liquidity risk management effectively conserves banks from financial imbalance and fosters their ability by aiding economic development through sound and stable funding sources.

The problem of liquidity risk management is most acute in India’s banking sector today for several reasons. NPAs have put a lot of pressure on the balance sheets of banks, hence requiring sound management of liquidity to ensure that solvency issues do not surface. Indian regulatory changes and economic factors require companies to be flexible when managing their cash balances to manage risk (Bhasin and Rajesh, 2022). The dynamics of liquidity risk has greatly changed due to the growth and development of new technologies and enhancement of digital solutions within banking sectors. The global process of financial integration implies the liberalization of capital with financial resources by ensuring financial stability and development in India.

The researcher explains how proper liquidity risk management practices can help reduce funding risks and ensure proper stability in banking systems in India. It reviews the effects of managing liquidity risk, and improves the management of liquidity when faced with challenging regulations and an ever-changing economic environment. Thus, it underlines the significance of technology in enhancing the prospects of accurate and efficient control over the levels of liquidity and strategies that help banks to enhance their capability to survive possible liquidity crises.

## 1.8 Proposed structure



#### Figure 1.2: Proposed structure

(Source: Created by author)

## 1.9 Summary

Managing liquidity risks is prominent in the Indian banking industry to enable institutions not to run out of cash and become insolvent. Hence in dealing with such challenges like non-performing assets and regulatory changes demand excellent liquidity management. Liquidity risk management and its effects on funding within Indian banks is discussed in the following study to promote a stable banking structure. India’s banking sector holds significant importance in the Indian economy and they have certain challenges such as legal aspects, market trends, and high NPAs. Therefore, the RBI balances liquidity against lending and enhances management practices prompts banks.

# Chapter 2: Literature Review

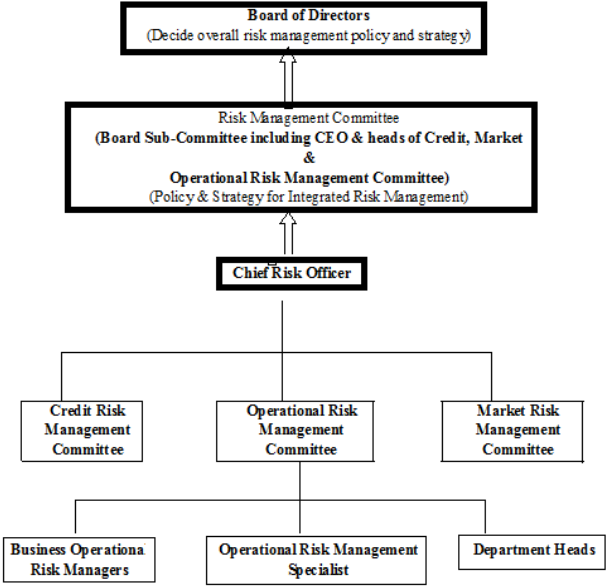
## 2.1 Introduction

The literature review examines the significance of liquidity risk management in the banking sector with special reference to Indian context. It discusses the available theories and research findings on how sound practice in managing employee funds contributes to stability in funding and financial stability. This review has offered a broad understanding of the effects of liquidity risk on the functional capacity and soundness of India’s banks based on past experiences, regulations as well as the current developments in technology. Effective theory is discussed to enhance the progress of “liquidity risk management” process within the banks in an effective way.

## 2.2 Concept of “liquidity risk management and funding” in the banking sector

“Liquidity risk management” is effective in ensuring availability of cash and to fulfil the needs of obligation and coordinating with different sources available in the institution. Liquidity is crucial for meeting customers' compensation, withdrawals and providing funds for the growth. Fund management is majorly involved with liquidity estimation requirements and meets the requirements in a “cost-effective” way. As per the view of Sidhu *et al.* (2023), “liquidity coverage ratio” focuses on the liquidity risk that the banks maintain to fulfil its 30 days obligations in case of any kind of crisis. The management also helps the banks to play a fundamental role by controlling “bank failures, promoting resilience and stability” in the banking sector. Besides that, liquidity management is the “proactive process” that ensures the organisation has the proper amount of cash for handling the financial obligation correctly. Moreover, it is considered as one of the “critical components” of financial performance and it provides a direct impact on organisational performance. The liquidity policy helps in identifying the required “liquid assets” for the banks. In addition, insufficient “liquidity assets” increase the risks and insolvency in the bank. Enhancing an “efficient banking system” is required to improve the nation's economy perfectly.

The “liquidity risk” develops when the banks confront difficulty to meet its “short-term” financial obligation due to lack of “cash or inability to convert assets”. For example, “liquidity management” is the key function of the Reserve Bank of India (RBI) and it ensures smooth function in the financial system and effectively manages the monetary policy (drishtiias, 2024). As per the policy of RBI there are three aspects of “liquidity management” such as “operating framework, the drivers of liquidity, and the management of liquidity”. The major reasons for “liquidity risks” are profit crisis, economic disruption, unplanned capital expenditure and lack of cash flow management” in the banking sector. Moreover, “liquidity risk management” in the banks defines inability to meet the obligations to the depositors and develop unacceptable loss. As opined by Ismail and Ahmed (2023), financial stability is crucial in mitigating financial risk more effectively and enhancing the risk management practice in the banking sector more effectively. Application of “liquidity risk management” process helps in meeting the obligations and as they fall and reduce the profitability of “adverse situation” development process. Use of a robust “liquidity risk management” framework helps the bank in managing sufficient liquidity and enhance high-quality “liquid assets” effectively.



#### Figure 2.1: Risk management process by the banks

(Source: aima, 2024)

The bank needs to articulate a clear “liquidity risk tolerance” to enhance the business strategy more effectively and improve the financial system in an effective way. The senior management within the bank needs to focus on building “effective strategies, policies and practices” to manage the liquidity risk more effectively. Proper focus on the liquidity development and reviewing the banking information helps in managing the financial system perfectly. Moreover, the “board of directors” of the bank needs to approve the strategy and review the policies properly to manage liquidity and risk annually. Proper control on the liquidity “risk exposure” is needed for the organisation by managing legal entities, and transferability of liquidity more effectively. Moreover, the “liquidity management” process within the banks needs to be sufficient to meet funding needs and incorporate liquidity costs with different business activities perfectly. As stated by Alrwashdeh*et al.* (2023), well-capitalism within the bank helps in managing the “liquidity risk” within the bank and increases the liquidity of commercial banks more effectively. However, the management of “liquidity risk” is quite critical and it focuses on meeting continuous needs of the cash more effectively. For instance, Indian banks are focused on managing “high-quality” liquid assets, diverse funding sources and cashflow forecasting to mitigate the “liquidity risk” in the banking industry. Moreover, banks need to focus on developing an effective “liquidity risk framework” to manage the market circumstances and manage the position of the banks more effectively. Effective risk appetite strategy by the senior management of the banks helps in optimising the “funding system” of the banks in a perfect manner.

## 2.3 Benefits of using liquidity risk management to enhance appropriate funding management in banks

Proper “liquidity risk management” within the bank is necessary to improve the control over “cash forecasting” and manage “liquidity assets” perfectly. The major benefits of “sound liquidity management” are to predict the position of future liquidity in an effective way. Moreover, it helps the banks in providing control over the available cash in the given time. Besides that, appropriate “cash forecasting” helps to calculate the “liquid funding” of the bank as per the requirements. Effective “liquidity risk management” allows the organisation to minimise the risk of liquidity shortage and while paying the creditors. As per the opinion of Harsono (2024), preparing a “contingency plan” is beneficial for managing the “liquidity risk" within the banking sector in an effective way. Moreover, it helps the bank in developing operational continuity within the bank and face “liquidity pressure” in a perfect manner. Good “liquidity management” process within the bank helps in developing the “investment opportunities” and manage optimal “funding sources” as per the liquidity requirements. On the other hand, “risk management” in the banking sector has the ability to mitigate loss, and ensure efficiency in the “liquidity management” system. Besides that, effective “liquidity risk management” helps in managing compliances and promote confidence within the “banking industry”. The major benefit is to meet the obligations and manage the critical situation within the banking sector more effectively.

Proper focus on the “risk management” process helps in understanding “opportunities, trade-offs, and costs involved” in the investment process more effectively. Effective “liquidity risk management” allows the banking industry to prepare from “future damage” and preserve the financial health of the organisation perfectly. For instance, use of “liquidity risk management” attributes help the Indian banks to maintain continuity in business operations and protect from the business losses in an effective way. Besides that, it delivers flexibility in the financial process and provides quick response to unexpected expenses. As opined by Barik and Chakrabarty (2023), proper management helps in monitoring “leverage ratio” of the banks more effectively. The “risk management practice” is necessary for maintaining stability in the banking sector. In contrast, it helps to manage the “liquidity assets” in the hands of banks to maintain the financial obligation in an effective manner. Moreover, it helps in reducing losses in the banking sector in an effective way. The major purpose of “liquidity risk” is to manage the “financial obligation” and control substantial loss within the banking sector more effectively. The banking sector needs to provide proper attention to the “liquidity risk management” process to avoid any kind of “insolvency issue” and enhance the financial health of the banks more effectively. In addition, it allows the “banking industry” to enhance required funds and raise the liquidity in an effective way. The supervisors of the banks need to focus on improving the regulations compliance to manage the “risk management” process in the banks and help the bank to mitigate the financial loss.

Improving the “liquidity risk management” system in the banking sector helps in mitigating the risk of occurring any financial disruption in the organisation. In addition, the banking sector is able to identify the potential risk accurately by using the “liquidity risk management” process within the banks. The application of the correct “risk management system” helps in avoiding liquidity risks at a very early time and revamp the business condition in an effective manner. The significance of using “liquidity planning” is to manage the expenses of the banking sector and improve “financial condition” accurately. Moreover, to allow the banks to reduce the funding cost and “liquidity buffer” within the organisation in an effective way, maintaining a proper liquidity planning is essential.. For example, the use of “liquidity risk management” within the Indian banking sector helps in managing the “end-of-day” funding and managing the “cost-capital” in an effective way. Besides that, “risk management” in the liquidity process in turn helps in paying the debts without any kind of large losses in the business. As stated by Mariscal-Cáceres *et al.* (2024), effective liquidity regulations within the banks help in increasing the funds and assets by meeting the payment obligation more effectively. Adequate “liquidity risk management” is more effective for the brand to develop the “investment project” more effectively. Thus, the “banking sector” is able to enhance stability by managing money flow, payment system and transformation process in the banks more effectively.

## 2.4 Challenges of managing “liquidity risk management” to develop proper funding activities in banks

The major challenges of managing “liquidity risk management” are “lack of funding, profit crisis and disruption” in the banking sector. The banking industry confronts major issues in the “revenue forecast” process while developing “liquidity risk management” process. Besides that, an overly ambitious “expansion plan” in the management process develops major issues and affects the cash flow of the organisation more effectively. Improper visibility in the collection process due to bad “liquidity management” also develops major risk in the financial system. As per the view of Debnath and Banerjee (2023), the banking sector confronts the challenges in implementing effective “risk management” framework within the banks. Due to improper “risk management” planning the banks are facing challenges in enhancing “profitability, pricing, liquidity standards and cost of credits” more effectively. For instance, the Indian bank confronts issues in implementing the “Basis III framework” to revamp “liquidity management risk” more effectively and revamp the “economic condition” of the bank more effectively (Debnath and Banerjee, 2023). Proper application of the framework may help the “banking industry” to enhance the business condition more effectively and achieve all the success in a perfect manner. Improper “liquidity risk management” helps in regulating the “capital requirements” within the bank and achieve all the success in an effective manner. Reviewing the “contingency funding plan” helps in reducing the “liquidity risk” in the banks and achieves all the success. Lack of operation process in the “liquidity risk management” process of the banks develops changes in maintaining “financial health” in a proper way. “Robust planning, strong governance, and liquidity policies” are required to resolve the challenges of “liquidity risk management” in the banks more effectively.

‘Strategic liquidity shifts’ is another challenge that has restricted major banks from applying liquidity risk management. According to the data from the ‘World Bank’, the ‘gross domestic savings’ dropped to around 29.1% in 2022, from 34.3% in 2010 (Times of India, 2024). On the other hand, overall household savings in physical assets increased to rupees 27.6 trillion, from rupees 22.5 trillion in 2018. It indicates that out of overall financial savings, investment within non-banking operations has increased. Enhanced financial literacy and inclusion has divided household savings to capital markets as well as mutual funds. This has created pressure for the banking organisations to hold their funds and eliminate financial losses. For instance, if the number of bank account holders shift to other forms of financing, banks may lose their financial position in the form of decreased cash or deposits. Besides, there has been a constant rise in numbers of customers having personal loans, credit cards, consumer loans, and business loans. It also creates pressure to have more than sufficient assets and funds, which has urged them to follow continuous liquidity risk management procedures. Moreover, it is anticipated that managing liquidity risks is going to be more costly for banking organisations in near future, which might lead to erosion in profitability.

## 2.5 Strategies and techniques recommended for handling ‘Liquidity Risk Management’ in managing funds for banking organisations

Managing liquidity risks is one of the major priorities for all business operations, especially the public and private banking organisations. Liquidity risk management clearly indicates the financial health of a bank with the visibility of how well it can afford current and future debts and short-term investment and funding. As opined by Harb *et al* (2023), liquidity risk management is carried out with a focus on ensuring that financial operations are in the position to address their liquidity obligations for surviving liquidity stress. In order to bring out suitable strategic solutions for liquidity risk management, banking organisations are responsible to deliver a well-defined mechanism for measuring, monitoring and addressing liquidity risks. Multiple stakeholders including investors and lenders are directly or indirectly interested in banks’ liquidity to analyse their financial performance and future risks to make further transactions or activities with them. Liquidity assets are compared with short-term liabilities to verify whether the specified banking operations could achieve their debt obligations with assets and cash.

In terms of strategic solutions for liquidity risk management, liquidity measurement procedures can be useful. For instance, examining the determinants of liquidity buffers over a certain period of time is a highly-recommended strategy for banking organisations, which is also known as ‘liquid assets to deposit ratio’. Such determinants are the macroeconomic fundamentals, characteristics of banks, shocks to funding and moral hazard motives (Harb *et al*. 2023). The strategy of liquidity buffer is inversely associated with the real GDP growth as well as credit cycles in a country’s economy. For this, banks store their liquid assets during recessions and reduce them in growth times to get more lending opportunities. Apart from that, the ‘liquid assets to deposit ratio’ method must focus on the bank’s capability of raising money through non-deposit measures, affecting the preventive demands for liquidity buffers. Besides, banking organisations can determine the ‘cost of holding liquid assets’ with comparatively low return. By this, the management can predict or estimate that the overall size of the liquidity buffers would associate with the distribution of liquidity shocks.

Examining ‘loans to total assets ratio’ is another strategic solution for banking organisations where net loans to consumers and its ratio with short-term funding can be measured. A higher value of ration eventually indicates less liquidity and high vulnerability to liquidity risks. The ‘Maturity laddering method’ is another way of resolving liquidity risks and obligations in banking and financial operations. With this method, banks' future cash inflows are compared to their current outflows. It is a ‘liquidity basis’ calculation where each matured profile must be analysed for future funding (Georgescu *et al*. 2020). It is anticipated that the number of matured liabilities is established for different funding segments through maturity laddering data by 12-quarterly observations. It is also known as liquidity shortfall analysis that sets identification whether a bank is eligible for long-term investment or funding. As there is no core process for managing liquidity risks, bank managers tend to bring stability into their funding. They consider core deposits as a trusted and stable source of funds for which they continuously fund bank loans. In this circumstance, the ‘Maturity laddering method’ can bring out an estimation of the financing gap between average loans and average deposits in banking operations.

Apart from these methods, banking organisations can go for the method of stress test, which is purely focused on generating insights about liquidity and funding. Insufficient and inappropriate levels of banking capital within the banking system can hinder its capability of creating liquidity and supporting financial growth. Therefore, the stress test method is relevant because it is aimed at analysing the resilience of baking procedures and systems under certain regulatory frameworks, during economic shocks. According to the stress test, participating banking organisations must be avoiding investments that require a higher level of capital buffer (Nguyen *et al*. 2020). These banking operations must also have the incentive for aligning their internal risk control and evaluation process under the criteria of the stress test. The benefit of this testing method is that it has forward-looking perspectives while evaluating banks’ liquidity risks, leading to improved supervision of bank capital. In addition to that, banking organisations can incorporate contingency funding planning by clearly detailing the steps to be carried out during liquidity shortfalls. Such a plan is an extended action plan of the stress testing of liquidity and assets in banks, determining the probability of funding eligibility. Developing a ‘Contingency Funding Plan (CFP)’ involves active monitoring of liquidity funding is carried out for banks to avert any possible liquidity risks triggered in the future (Wuave *et al*. 2020). Hence, this plan can be implemented by bearing the cost of maintaining sufficient cushions of higher quality liquid assets for meeting unexpected funding obligations and avoiding potential losses.

## 2.6 Theoretical alignment

***‘Theory of Bank Liquidity Requirements’***

The concerned theory is a visible understanding of the fact that commercial banks make short-term productive loans and the central bank must lend to these banks upon the loan security. It encompasses a few scenarios for demanding bank cash holdings such as cash is verifiable and observable. Other than that, the riskiness of cash is invariant to the decisions of bankers about investing funds in risk management and managing cash-in-advance saves on the costs of liquidation. Such liquidity requirements for the global banks were proposed and set by the Basel Committee, after the financial crisis of 2009. It involves the implication of two major ratios including ‘Liquidity Coverage Ratio (LCR)’ and ‘Net Stable Funding Ratio (NFSR)’. Among these ratios, the LCR is implied with the purpose of promoting short-term resilience of banks’ liquidity risk profile (Calomiris *et al*. 2015). With this, it is ensured that banks hold a sufficient stock of high-quality liquid assets, which can further be converted into cash. Therefore, the theory clearly indicates the way banking organisations can survive in critical economic conditions by arranging funds and reducing the liquidity risks. Additionally, in this framework, cash requirements from banks reduce the default risks of liquidity and encourage proper risk management to the authority.

In financial dimensions, there is widespread agreement that banking organisations can get help through achieving capital requirements, leading to safe operation and eliminating liquidity stress. Capital and liquidity regulations can impose essential costs for reducing the banks’ ability to generate net liquidity by transforming illiquid loans into liquid deposits. Hence, liquidity requirements urge banks to hold safer liquid assets against overall deposits, significantly affecting their balance sheet and income statement (Van den Heuvel, 2022). The measurement and management of liquidity requirements is crucial for banks because it massively implies in the liquid assets’ pecuniary returns such as treasuries and bank deposits. Such returns are relatively lower than the returns on non-liquid assets, eventually resulting in binding capital requirements. Due to excessive competition between private banks in a country’s market, banking and financial operations pass on cheaper deposit funding to borrowers, in a lower lending rate (Van den Heuvel, 2022). With such theoretical explanation, both liquidity and capital regulations are useful in eliminating moral hazards from deposit insurance. It eventually prevents financial crises for banks and financial companies. Therefore, it is established that ideal liquidity risk management is impactful for banks to generate and hold more funds in its operation, with a future potential of lending money to customers.

## 2.7 Literature gap

Gaps in research literature are considered as the missing or insufficient information regarding a situation or phenomenon. Determining specific literature gaps in research is about finding unexplored or under-explored areas of facts and insights. In this context, the research has a major focus on the strategic implication of liquidity risk management and its various impacts on banking operations. In this, multiple strategies as well as measurements are mentioned in the literature as probable solutions of liquidity risks, which were not fully explored in earlier research. The use of theoretical views is unique as there is less explanation on this theory, by aligning with liquidity risk management and funding arrangement in banks.

## 2.8 Summary

Innovations have impacted the trends on liquidity risk badly as banks have increased in their ability to predict changes in liquidity efficiently. Alleviating these drawbacks is crucial in improving the performance and steadiness of the banking sector. Banks control liquidity risk by moving funds from short-term liabilities to long-term assets. Managing liquidity concerns helps banks avoid insolvency. Thus, the analysis found that banks are financially stable, and production processes arrive in the banking sphere, to protect the interests of depositors and contribute to the development of the economy. The gap in the literature has been demonstrated in this section for improving the reviewing process more accurately in future.

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