

The logo of Galgotias University is a circular emblem with three curved, overlapping bands in shades of yellow, blue, and red, creating a stylized 'G' shape.

## Fund management in Banking and Insurance

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## Lecture-4

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## Topic cover on reserves of banks

- Bank reserves
- Types of bank reserves
- Primary reserves
- Sub category of primary reserves
- Secondary reserves
- Difference between primary and secondary reserves
- references

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## Bank reserves

- Commercial banks operates its business based on collected deposits.
- Maintaining sufficient liquidity to address depositor's timely demand for withdrawal.
- Banks imperative task to manage sufficient amount of
- Liquidity in it.
- Bank regulatory adopt various strategies for reserves management

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## Bank reserves categories

The reserves of banks are divided in two categories:

1. Primary reserves
2. Secondary reserves



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## Primary Reserves

Primary reserves consist of cash on hand in the bank and deposits owed to it by other banks.

- These are also called the legal reserves.
- From this cash on hand tellers are able to meet customer demands for withdrawals, exchanges, and loans.
- Any excess reserves may be invested in larger banks in the form of the loans.
- Primary Reserve also called "*First line of Defence*".
- Used for liquidity crisis arise suddenly*

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## Primary reserves

Primary reserves are divided in two categories:

### 1. Legal reserves :-

The portion of deposit kept in cash only as per regulatory authority

### 2. Working reserves :-

The amount in excess of legal reserves, refer as current deposit in other sister bank or central bank.

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## Secondary reserves

Securities purchased by a bank for investment purposes are known as secondary reserves. Assets invested in short-term marketable securities, usually Treasury bills and short-term government securities

- Secondary reserves are a source of supplemental liquidity.
- These earn interest and can be used to adjust a bank's reserve position
- Secondary reserves are not listed as a separate balance sheet item.
- Secondary Reserve also called "*Second line of Defence*".

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## Difference between Primary and Secondary Reserves

Point of difference	Primary reserves	Secondary reserves
Aim	Liquidity	Liquidity and income
Forms	Only cash	In securities and bonds etc
Liquidity percentage	up to 100%	Less than 100%
Yield capacity	No	Yes
Line of defence	First	Second

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## Functions of Secondary Reserves

- To avoid liquidity crisis
- To earn moderate income
- To tradeoff between liquidity and profitability.

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## References

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3. George E. Rejda: Principles of Risk Management & Insurance, Pearson, New Delhi

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# School of Finance and Commerce

Course Code : MBAF6024

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**Thank You**

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