



INTERNATIONAL JOURNAL OF RESEARCH IN COMPUTER APPLICATION AND MANAGEMENT

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IMPACT OF CASA DEPOSIT GROWTH ON THE PROFITABILITY OF NSE LISTED NATIONALIZED BANKS AND NEW GENERATION BANKS IN INDIA - A COMPARATIVE STUDY

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ABSTRACT

CASA stands for current account and savings account deposits which are offered by the banks. It is fortunate that only the financial service company which is registered under banking Regulation Act 1939 is eligible to offer this type of deposits. It is otherwise called as Low cost deposits. Because this deposits are offering 3 to 3.5% interest to the depositors rather than recurring and fixed deposits. When these deposits are utilized for loans and advances, bank is charging minimum 8% interest. So the minimum interest spread for every bank will be 4.5% on all types of loans and advances schemes provided they are dependent on this type of deposits. This study is made to visualize how much is the growth of CASA deposits over the period of time and how it helps the banks increase their interest spread and thereby making their profit position comfortable. For this study, 10 years CASA deposit growth of 25 banks was taken for analysis. By the use of correlation technique, the degree of relationship between CASA growth and interest spread, CASA Deposit ratio growth and operating profit, CASA Deposit ratio growth and branch growth were found out.

KEYWORDS

Casa, Deposit, Growth, Saving, Financial.

INTRODUCTION

The government has asked public sector banks (PSBs) to increase focus on attracting low-cost current account, savings account (CASA deposits) in order to contain their cost of funds. It will also enable them to maintain a softer interest rate regime. The government has asked for specific CASA targets from public sector players, which have been provided by the banks as part of the discussion on statement of intent setting the targets for the current financial year. Bankers said that most public sector players had indicated a CASA growth of 17-20 per cent for the current financial year.

While the banks earlier focused on deposit growth, CASA deposits are coming into prominence for the first time. The move comes amid expectations of hardening of interest rates. "The government wants banks to increase their CASA deposits. These low-cost deposits will help us to contain costs, which means that a softer interest rate regime can be maintained," a banker said. Over the last three years, the share of low-cost deposits for public sector banks has dropped from 39.95 per cent at the end of March 2006 to 32.66 per cent at the end of March 2009. This year, Corporation Bank and Allahabad Bank have projected a 17-18 per cent growth in low-cost deposits. For Corporation Bank, the share of CASA in total deposits fell to 23.84 per cent in June as against 31.44 per cent at the end of March. The bank expected to close the current financial year with CASA deposits of 25 per cent.

Even banks such as State Bank of India have witnessed a fall in the share of CASA to total deposits and have initiated steps to increase it. In case of SBI, the share of CASA in total deposits fell to 38.45 at the end of June this year as against 39.26 per cent in March due to a decline in current account balances. An increase in low-cost deposits would also help banks to improve their net interest margins (NIMs) which came under severe pressure in the first quarter.

Repeated cuts in the benchmark prime lending rates since October-November last year also brought pressure on it. This declining has revealed in all the correlation analysis done in the analysis part of the study. In aligning with Branch growth, Net interest margins and operating profit, CASA deposits are shown negative relationship. It seems that Branch expansion and profitability do not support Current and savings account deposits.

On the other side, the fate of private sector banks is totally other way around. There is the perfect correlation between CASA and branch growth; between CASA and Net Interest Margin and in between CASA and operating profits. It seems that Branch expansion and profitability do support Current and savings account deposits.

CONCEPTS USED IN THIS STUDY

- 1. Net Interest Margin:** It is the difference between the interest rate of banks' offer of loans and advances and the interest rate of banks' borrowings.
- 2. Branch growth ratio:** It is the connection between the total number of individual branches and total number of all branches of all the sample banks across the bank industry.
- 3. Operating Profit:** It is the Earnings before interest and taxes.

RESEARCH METHODOLOGY

RESEARCH PROBLEM

Finding out the impacts of maintaining CASA deposits.

RESEARCH DESIGN

ANALYTICAL OR MODELING RESEARCH

It is nothing but a modeling research which is spelling out the present and future impacts based on past years information. The theme of the study is whether the CASA business proposition helps improve financial performance or not.

SIZE OF THE POPULATION

Total sample is 25 banks.

NAME OF THE SAMPLE TYPE

Proportionate Stratified random sampling

REASON FOR USING THIS TYPE IN THIS STUDY

This sampling method is used in this study because there are two segments namely nationalized banks and New Generation banks. Nationalized banks are government owned banks and administered by Government whereas new generation segment is owned by private and administered by private with surveillance of Reserve bank of India.

SAMPLE FRAME

NSE listed stocks

SAMPLE SIZE

8 banks in two groups; one group is nationalized banks segment which contains 4 banks and another is new generation segment which also contains 4 banks. The names of the nationalized banks are 1. Andhra bank, 2. Oriental bank of commerce, 3. State bank of India. 4. Indian overseas Bank. The names of the new generation segment are 1. HDFC bank, 2. ICICI Bank, 3. Axis bank. 4. IDBI bank.

TOOLS USED FOR ANALYSIS

Researcher has used **Correlation Technique** to perform the study.

OBJECTIVES OF THE STUDY

1. To find out reasons for low growth of Nationalized Banks deposits
2. To find out the relationship between CASA deposit growth and Interest spread
3. To find out CASA deposit growth and Branch growth
4. To find out the relationship between Interest Spread and Operating Profit growth

SCOPE OF THE STUDY

This is the secondary data study which covers the period from 2001-02 to 2009-10. This study mentions only the **Impact of CASA Deposit growth on the Profitability of NSE listed Nationalized Banks and New Generation Banks in India**. It is a comparative study. As far as this study is concerned, only the branch expansion leads to the growth of deposits. In turn this deposit growth leads to the profitability of the banks. The scope of the study is confined to current and savings account deposits growth only.

LIMITATION OF THE STUDY

1. This study bears all the negative effects of secondary data analysis
2. The transactions before 2001-02 and after 2009-10 are not taken in to account.
3. With respect to branch growth, only as on 2009-10 the numerical strength of branch only is taken in to account for consideration. Yearly additions of branches are not taken.
4. The coverage of the analysis is limited to NSE listed banks. Other stock exchange listed and unlisted banks have not taken as the samples. So the findings of the study may not apply to them.

ANALYSIS AND INTERPRETATION

REASONS FOR HIGH GROWTH OF NATIONALIZED BANKS DEPOSITS

- The global financial crisis which triggered in September 2008 in the US market and subsequently spread all over the world. It has impacted the Indian banking in several ways although the latter remained insulated from the severe jolt experienced by its counterparts, particularly in advanced countries.
- Depositors seem to have perceived more risk in depositing their money with private sector banks and shifted their loyalty to public sector banks. For instance, the share of public sector banks in total deposits which stood at 73.91 per cent before the crisis and this figure increased to 77.61 per cent as at the end of March 2009 that is during the crisis and further increased to 77.68 per cent as at end March 2010 after recovery began. So the investors risk perception has been the reason for the increased growth of all nationalized (Public sector) banks and decreased growth of all private sector and foreign banks in India.

Source: www.businessline.in/banking

TABLE-1 SHOWING THE FINANCIAL PERFORMANCE OF SAMPLE BANKS FOR THE AVERAGE OF 9 YEARS –NATIONALIZED SEGMENT

S.No.	Name of sample banks	CASA to total deposit ratio in times	Branch growth ratio in times	NIM to Total assets In times	Operating profit to total assets In times
1	State bank of India	0.39	24	2.87	2.08
2	Bank of India	0.32	3.67	2.92	2.92
3	Andhra bank	0.33	2.72	2.84	2.48
4	Oriental bank of commerce	0.28	8.25	2.94	2.51

INTERPRETATION

As far as CASA deposit ratio is concerned, State bank of India is leading tally. It is grown by 0.39 times, whereas Oriental bank of commerce is lowest among all banks. It is only 0.28. On the other side in the case of operating profit to total assets oriental bank of commerce is more than all other banks among samples. The result is 2.51 times. Whereas State bank of India is only 2.08 times. From this fact and figures, it is evident that CASA deposit is nothing to do with bank's profit position. It is clearly vindicated in Net interest margin also.

TABLE-1 B SHOWING THE FINANCIAL PERFORMANCE OF SAMPLE BANKS FOR THE AVERAGE OF 9 YEARS –NEW GENERATION SEGMENT

S.No.	Name of sample banks	CASA to total deposit ratio in times	Branch growth ratio in times	NIM to Total assets In times	Operating profit to total assets In times
1	ICICI Bank	0.24	2.69	2.02	1.99
2	HDFC Bank	0.50	2.68	3.92	3.00
3	IDBI bank	0.22	.28	1.49	1.43
4	ING Vysya bank	0.23	0.85	2.05	1.36

INTERPRETATION

In terms of financial performance, it is known that HDFC is found to be No 1 bank on all aspects. In the case of CASA to total deposit ratio, it is 0.5 which is higher than all other sample banks. In the case of branch growth (2.68), it is next to ICICI bank only and in terms of NIM to total assets and operating profits to total assets, the ratios are 3.92 times and 3.00 times respectively which much higher than all other sample banks. The least performing bank is IDBI Bank in terms all aspects be it CASA to deposit ratio(0.22), branch growth in times(0.28), NIM to total assets in times(1.49) and operating profit to total assets in times(1.43).

I.CASA GROWTH ANALYSIS THROUGH CORRELATION TECHNIQUE FOR NATIONALIZED BANKS SEGMENT

1. CASA deposit ratio growth Vs. Bank branch growth: Here the amount of relationship between bank branches and the amount of CASA deposit ratio is found out. It gives light on the contribution of bank branches expansion to deposit growth.

TABLE-2 SHOWING CORRELATION BETWEEN CASA DEPOSIT RATIO GROWTH AND BANK BRANCH GROWTH

S.No.	Name of sample banks	CASA to total deposit ratio in times	Bank branch growth
1	State bank of India	0.39	2.69
2	Bank of India	0.32	2.68
3	Andhra bank	0.33	.28
4	Oriental bank of commerce	0.28	0.85
	Correlation coefficient	-0.952	

Computation correlations through SPSS software

TABLE – 2A SHOWING THE CORRELATION DETAIL BETWEEN CASA & BRANCH GROWTH

SPSS details		CASA Deposits to Total Deposits	Branch growth ratio in times
CASA Deposits to Total Deposits	Pearson Correlation	1	-.952(*)
	Sig. (2-tailed)	.	.048
	N	4	4
Branch growth ratio in times	Pearson Correlation	-.952(*)	1
	Sig. (2-tailed)	.048	.
	N	4	4

* Correlation is significant at the 0.05 level (2-tailed).

INTERPRETATION

It is a negative relationship between **CASA** Deposits to Total Deposits and Branch growth ratio in times. The result is **-0.952**. It seems that the times increase in **CASA** deposit is less than the times increase in branch growth. Therefore branch growth has nothing to do with Current and saving account deposit growth. This result is consolidated average for 4 banks, covering 9 financial years data from 2001-02 to 2009-10.

TABLE-3 SHOWING CORRELATION BETWEEN CASA DEPOSIT AND NIM / TOTAL ASSETS IN TIMES

S.No.	Name of sample banks	CASA to total deposit ratio in times	NIM / total assets
1	State bank of India	0.39	2.87
2	Bank of India	0.32	2.92
3	Andhra bank	0.33	2.84
4	Oriental bank of commerce	0.28	2.94
	Correlation coefficient	-0.641	

TABLE –3A SHOWING THE CORRELATION DETAIL OF CASA & NIM

SPSS details		CASA Deposits to Total Deposits	Net Interest Margin(NIM) to total Assets
CASA Deposits to Total Deposits	Pearson Correlation	1	-.641
	Sig. (2-tailed)	.	.359
	N	4	4
Net Interest Margin to total Assets	Pearson Correlation	-.641	1
	Sig. (2-tailed)	.359	.
	N	4	4

INTERPRETATION

Like the former one, It is also a negative relationship between **CASA** Deposits to Total Deposits and Net Interest Margin (NIM) to total Assets ratio in times. The result is **-0.641**. It seems that the times increase in **CASA** deposit has reduced the Net Interest Margin (NIM) growth. It may be because of consistent decrease in interest rates on Loans as well as Net interest Margin. Therefore Net Interest Margin (NIM) growth has nothing to do with Current and saving account Deposit growth. This result is consolidated average for 4 banks, covering 9 financial years data from 2001-02 to 2009-10.

TABLE-4 SHOWING CORRELATION BETWEEN CASA DEPOSIT AND OPERATING PROFIT/ TOTAL ASSETS RATIO

S.No.	Name of sample banks	CASA to total deposit ratio in times	operating profit/ Total assets ratio
1	State bank of India	0.39	2.08
2	Bank of India	0.32	2.92
3	Andhra bank	0.33	2.48
4	Oriental bank of commerce	0.28	2.51
	Correlation coefficient	-0.639	

TABLE-4A SHOWING THE CORRELATION BETWEEN CASA & OPERATING PROFITS

SPSS details		CASA Deposits to Total Deposits	Operating profits to total assets
CASA Deposits to Total Deposits	Pearson Correlation	1	-.639
	Sig. (2-tailed)	.	.361
	N	4	4
Operating profits to total assets	Pearson Correlation	-.639	1
	Sig. (2-tailed)	.361	.
	N	4	4

INTERPRETATION

The researcher is able to get the same negative effect of CASA deposit growth as it is in the case of its correlation with Branch growth in times and Net interest margin to total assets ratio. The correlation is **-0.639**. The fact is CASA deposit growth has pulled down the operating profit growth. So whenever there was a reduction in CASA Deposits, operating profits went up and vice versa. It had been the case from the reading of past nine years data from 2001-02 to 2009-10. This CASA deposit growth did not support operating profits to up. This result is consolidated average for 4 banks, covering 9 financial years data from 2001-02 to 2009-10.

II. **CASA growth analysis through Correlation technique for New generation banks Segment****TABLE-5 SHOWING CORRELATION BETWEEN CASA DEPOSIT RATIO GROWTH AND BANK BRANCH GROWTH**

S.No.	Name of sample banks	CASA to total deposit ratio in times	Bank branch growth
1	ICICI Bank	0.24	2.69
2	HDFC Bank	0.50	2.68
3	IDBI bank	0.22	.28
4	ING Vysya bank	0.23	0.85
	Correlation Coefficient	0.611	

TABLE – 5A SHOWING THE CORRELATION DETAIL BETWEEN CASA & BRANCH GROWTH

SPSS details		CASA deposits to Total Deposits ratio	Branch growth in times
CASA deposits to Total Deposits ratio	Pearson Correlation	1	.611
	Sig. (2-tailed)	.	.389
	N	4	4
Branch growth in times	Pearson Correlation	.611	1
	Sig. (2-tailed)	.389	.
	N	4	4

INTERPRETATION

It is a positive relationship between **CASA** Deposits to Total Deposits and Branch growth ratio in times. The result is **0.611**. It seems that the times increase in CASA deposit is much higher than the times increase in branch growth. Therefore branch growth has something to do with Current and saving account deposit growth. This result is consolidated average for 4 banks, covering 9 financial years data from 2001-02 to 2009-10.

TABLE-6 SHOWING CORRELATION BETWEEN CASA DEPOSIT AND NIM / TOTAL ASSETS IN TIMES

S.No.	Name of sample banks	CASA to total deposit ratio in times	NIM / total assets
1	ICICI Bank	0.24	2.02
2	HDFC Bank	0.50	3.92
3	IDBI bank	0.22	1.49
4	ING Vysya bank	0.23	2.05
	Correlation coefficient	0.981	

TABLE –6A SHOWING THE CORRELATION DETAIL OF CASA & NIM

SPSS details		CASA deposits to Total Deposits ratio	Net interest margin to total assets ratio
CASA deposits to Total Deposits ratio	Pearson Correlation	1	.981(*)
	Sig. (2-tailed)	.	.019
	N	4	4
Net interest margin to total assets ratio	Pearson Correlation	.981(*)	1
	Sig. (2-tailed)	.019	.
	N	4	4

* Correlation is significant at the 0.05 level (2-tailed).

INTERPRETATION:

Like the former one, It is also a positive relationship between **CASA** Deposits to Total Deposits and Net Interest Margin (NIM) to total Assets ratio in times. The result is **0.981**. It seems that the times increase in CASA deposit has driven the Net Interest Margin (NIM) growth to increase. Therefore Net Interest Margin (NIM) growth has something to do with Current and saving account Deposit growth. This result is consolidated average for 4 banks, covering 9 financial years data from 2001-02 to 2009-10.

TABLE-7 SHOWING CORRELATION BETWEEN CASA DEPOSIT AND OPERATING PROFIT/ TOTAL ASSETS RATIO

S.No.	Name of sample banks	CASA to total deposit ratio in times	operating profit/ Total assets ratio
1	ICICI Bank	0.24	2.08
2	HDFC Bank	0.50	2.92
3	IDBI bank	0.22	2.48
4	ING Vysya bank	0.23	2.51
	Correlation coefficient	0.945	

TABLE-7A SHOWING THE CORRELATION BETWEEN CASA & OPERATING PROFITS

SPSS Details		CASA deposits to Total Deposits ratio	operating profit to total assets
CASA deposits to Total Deposits ratio	Pearson Correlation	1	.945
	Sig. (2-tailed)	.	.055
	N	4	4
operating profit to total assets	Pearson Correlation	.945	1
	Sig. (2-tailed)	.055	.
	N	4	4

INTERPRETATION

The researcher is able to get the same positive effect of CASA deposit growth as it is in the case of its correlation with Branch growth in times and Net interest margin to total assets ratio. The correlation is **0.945**. The fact is CASA deposit growth has caused the operating profit growth. So whenever there was an increase in CASA Deposits, operating profits went up and vice versa. It had been the case from the reading of past nine years data from 2001-02 to 2009-10. This CASA deposit growth did support operating profits to up. This result is consolidated average for 4 banks, covering 9 financial years data from 2001-02 to 2009-10.

FINDINGS OF THE STUDY

1. After the recession, the risk perception of the depositors has turned positively towards nationalized banks as the growth increased from 73.91 per cent to 77.68 per cent.
2. In the case of nationalized banks segment, correlation between CASA and Branch growth is -0.952; CASA and Net interest margin growth is -0.641; CASA and Operating profit growth is -0.639. Here all the variables are negatively correlated.
3. In the case of new generation banks segment, correlation between CASA and Branch growth is 0.611; CASA and Net interest margin growth is 0.981; CASA and Operating profit growth is 0.945. Here all the variables are positively correlated.

CONCLUSION

It is quite evident that only deposits growth and Credit demand will increase the profitability of any banks irrespective of its size. Having got this assumption, the researcher has covered only deposits part for carrying out financial performance study. CASA is a low cost deposit as it offers only low interest rates to the deposits unlike term deposits. This kind of deposits increase will spell out positive growth in maintaining number of branches, increasing net interest margins as spread (Interest receipt – Interest payment) is increasing and it will result in phenomenal growth in operating profits. What is concluded in this study is that CASA deposits had not created any kind of positive impacts on all three criterion variables in the case of nationalized banks. So profitability is achieved because of other factors only. Whereas in the case of new generation banks, CASA had created all kinds of positive impacts on all variables namely Branch growth, Net Interest Margin and Operating Profits.

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