

A Study of Deposit Trends in select Public and Private Sector Banks in India (From 2007 – 08 to 2016 – 17)

Prof. Chetana Soni¹, Dr. Pushparaj Kulkarni²

¹ Dr. Ambedkar Institute of Management Studies & Research, RTMNU

² Dr. Ambedkar Institute of Management Studies & Research, RTMNU

Abstract: Borrowing and lending are the key function of Indian banking sector. Deposits are the life blood of the banking institution as they constitute the major source of funds to lending activities. To increase their deposits the bank competes themselves. Here in the research an attempt has been made to see the deposits pattern of selected public and private sector banks for the period of 2010-11 to 2016-17. The objective of the research paper is to do the comparative trend analysis of public and private sector banks. The second objective of the research is to predict the trends of deposits on the basis of historical data over the period of time. Here the hypothesis for the research is that there is significant difference in deposit pattern of public and private sector bank over the period of time. For the research the research used mean and standard deviation as a tool of analysis. It is concluded from the research that the deposits of public and private sector banks showing a rising trends.

Keywords: Public sector banks, private sector banks, deposits and trend.

1. Introduction

Banks in India are making an effort to attract more deposits by coming up with new schemes of saving. The government had made every possible efforts to increase their new deposits with new schemes and reaching to the rural areas because as the deposits can provide them sufficient funds for lending its and to earn profit out of that. To increase their shares in overall rural development, the bank has to mobilize the deposits on large scale. As the funds opted by bank through deposits and borrowing it has to deploy in the right way to get maximum return out of that in terms of serving to society and also to generate revenues. A significant amount of deposits is however, prompted by cash reserve ratio and statutory liquidity ratio requirements. In any bank the credit policy of the government and the way it is implemented determines the amount of deployable resources accessible to a bank and also the areas where in profitable opportunities it can be deployed.

2. Banking System and Its current scenario

Banks and financial sector is the life blood of industry, commerce and trade. Banks are the backbone of the modern business and its contributes major part in the development of the economy. Banks are the financial institutions which are in deposits and advances and other related services. Its role is to receive money from those who wish to save money and lend to those who need money. It's an essential element to function the financial activities smoothly. In the current scenario people not able to do the proper transitions without deploying the proper bank network. So the competent banking system has significant constructive externalities, which increase the efficiency of the economy transaction in general. (P, 2014)

Indian government took the major step in 1969 by putting the banking sector into the systematic system by nationalized 14 private banks. This has been elaborate in nationalization banks in India. It was consider that private ownership of the bank helps to improve the efficiency and performance of bank and as a result the Indian government started diluting its equity in PSBs from the start of 1990 in a phased manner. Later on liberalization and globalization phase have opened up many challenges to the Indian financial sector. Even banks are on path to align their accounting standards n operating norms with the international standards and global players. During this phase the banks has to go through many challenges like privatization, technology reforms, infrastructure development etc. The focus of public sectors banks was on serving to the society where as the private sectors was more towards generating revenues and because of this the banking system has to go through the issues of NPA. Later on in the recent years the major challenge the banks gone through is demonetization and now finally the recapitalization of the banks. (Khare, 2018)

2.1 Challenges faced by the Indian Banking industry

The biggest challenges in the banking industry and specifically for the public sector banks in recent year are to tackle the surge in bad loans and to expedite the recovery of the bank loans. The challenge in the

banking industry specific to the PSBs is the asset quality deterioration which is the major cause of worsening the banking stability indicator. Because of the rising of the bad loans and public sectors banks need to be extra careful about lending which is resulting in low credit offtake. If we look towards the other side of it the lending is possible when they have deposits and still the Indian banks has to expand its roots to the rural areas where people should divert their money into the bank in form of deposits. Reserve bank of India introduced the differential banking license and small finance banks increase which result into increasing the competition for existing public sector banks and private sector banks also. New reforms were introduced in the banking system like Bankruptcy code and fresh capital via recap bonds will also require acceptance on parts of public sector banks.

2.2 SWOT Analysis of Indian Banking Sector

| SWOT | Contents |
|----------------------|---|
| Strengths | <ul style="list-style-type: none"> • High Standard Regulatory Environment • Bank lending contribution in GDP and economy • New Bank Presence in rural areas • Deposits increase • Maximization of Profit • Use of Plastic money • Digital banking |
| Weakness | <ul style="list-style-type: none"> • Lower Operational Size • High level of NPAs • Financial inclusion • Inadequate mobilization of deposits • Underutilized capacity in rural areas • Inadequate risk management skills • Inability in managing banks |
| Opportunities | <ul style="list-style-type: none"> • Increase in Profit • Emerging Economy • Long term growth potential |
| Threats | <ul style="list-style-type: none"> • High Probability of decreasing trend in non-interest income • Rising in corporate debts market • Holding of large chunk of money in CSR & SLR • Alternative avenues in lending • Rising cost of fund • Underutilized capacity particularly in rural areas • Structural weakness like lack of institutional support, weak corporate governance , inefficient regulation etc. |

3. Review of literature

S. Venkateshwarin his study entitle “An empirical approach to deposits mobilization of commercial banks in Tamilnadu” has done the study for the period of 1999-2000 to 2008-09. He consider the three types of deposits. In the research the compounded growth rate and the linear growth rate is calculated using the regression analysis. From the result of the analysis he found that their has been remarkable growth rate in mobilization of all kinds of deposits in scheduled commercial banks in Tamil Nadu as a whole. (Venkatesan, 2012)

Shah and Soniin their study entitled “A study of Profitability performance of the Indian banking sector with reference to selected public sector bank” studied about profitability position for the period of 2010-13. The objective of their research was to examine the relationship between the bank size, operational efficiency, asset and liability management and some other factors to discuss the performance of the banks. For the study purpose they used correlation and regression analysis. And it was concluded that state bank of India was on the first position in terms of compounded growth rate of deposits, assets and equity. (Shah, 2014)

Dr. Pimplapure in his study entitled “A study of NPA and its impact on the liquidity of commercial banks in India” study about the NPA and its impact on the liquidity for the period 2006-07 to 2011-12. The purpose of the study is to analyze the trend in NPA and its impact on the liquidity of banks. For the purpose of study ANOVA test is used to prove the hypothesis. It was concluded that their is no significant difference

between the Gross NPA in various banking sector and there is significantly difference net advances in various banks(Pimplapure, 2015)

Malyadri P &Shirisha S in their research paper entitled “An analytical study of trends and progress of Indian Banking Industry has conducted the study for the period of 2006-13. The purpose of their study is to explore the concentration of public, private sector and foreign banks. The second objective was to analyze the comparison of performance of Nationalized banks, State bank group,old private sector banks, new private sector banks and foreign banks. Compound annual growth rate is used as a tool. It is concluded from their study that public, private and foreign banks has different ranking based on different parameters such as no. of offices, no of employees, BPE, PPE, net worth, deposits, investment, advances, interest income, operating expenses, cost of funds and some of the other factors. (S, 2015)

4. Research Methodology

The focus of current study is to find out the pattern of deposits with the public sector banks and private sector banks. Further study has expanded to check whether there is any similarity exist between the deposits with public sector and private sector banks

Data required for conducting the research is primarily extracted from secondary sources to facilitate the useful information. Secondary data mainly include the data that is available in bank’s publication of Annual reports. Secondary data is very useful for research with its significant advantages: time saving and rapid accessibility.

4.1 Research Objectives

The major objective of the study is to assess pattern of deposits that are generated in commercial banks.

And overall performance of public sector bank and private sector bank in terms of deposits rose from public and corporate for the period of 2007-08 to 2016 – 2017. The specific objectives of study are;

- To study of trends of deposits of public sector banks
- To study the trends of deposits of private sector banks
- To evaluate the variations arises in deposits with public sector banks to that of private sector banks.
- To study any similarity in the pattern of deposits between public sector and private sector banks
- To identify the future potential for public and private sector banks in India.

4.2 Research Hypothesis

The following hypothesis has been framed for existing study

H₀1: average deposits generated by public sector banks and private sector banks are having no significant difference.

H₀2: correlation coefficient between average deposits of public sector banks and private sector banks is not significant.

4.3 Research Design including Sample design

For the given research the secondary data as well as the important and essential information has been collected from the official websites of commercial banks selected for study and official website of Reserve bank of India. For the purpose of study to 16 Banks (8 each from Public and Private Sector) has been selected. The list of the banks sector wise is mentioned below:

| Public Sector Banks | Private Sector Banks |
|-----------------------|----------------------|
| Bank of Baroda | HDFC Bank |
| Bank of India | ICICI Bank |
| Bank of Maharashtra | Axis Bank |
| Canara Bank | Kotak Mahindra |
| Indian Bank | IndusInd Bank |
| Punjab National Bank | City Union Bank |
| Union Bank of India | Federal Bank |
| State Bank of India | IDBI Bank |
| Central Bank of India | Karur Vyas Bank |

5. Figures and Tables

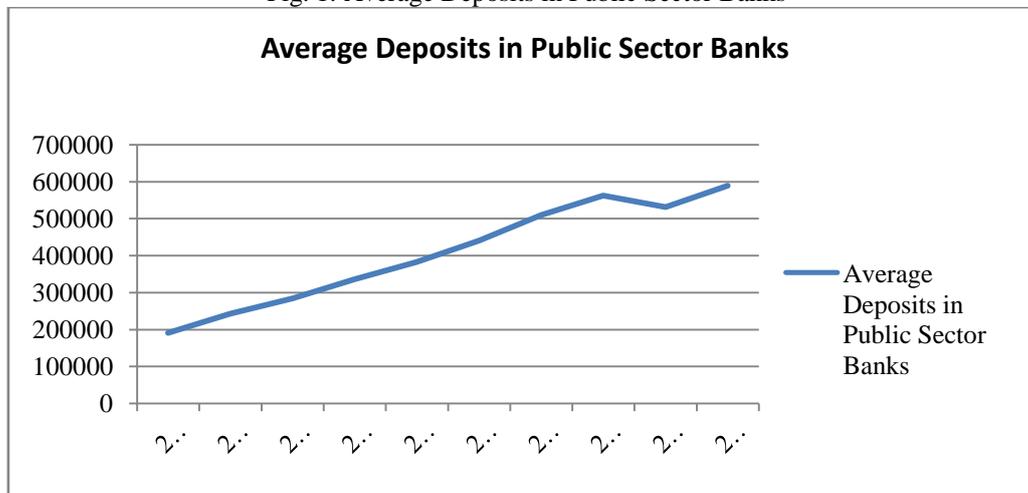
For the current research, banking sector has been categorized into two: Private and Public Sector. The data of deposits with these sample banks for last 10 years has been collected beginning from financial year 2007 - 08 onwards. The following table shows the average deposits of public sector banks for the period of study has been shown:

Table 1: Average Deposits in Public Sector Banks

| Year | Average Deposits in Public Sector Banks |
|---------|---|
| 2007-08 | 190670 |
| 2008-09 | 242917 |
| 2009-10 | 284096 |
| 2010-11 | 335968 |
| 2011-12 | 382814 |
| 2012-13 | 440445 |
| 2013-14 | 509286 |
| 2014-15 | 561790 |
| 2015-16 | 530754 |
| 2016-17 | 588896 |

Source: RBI Statistics

Fig. 1: Average Deposits in Public Sector Banks



Source: Secondary Data

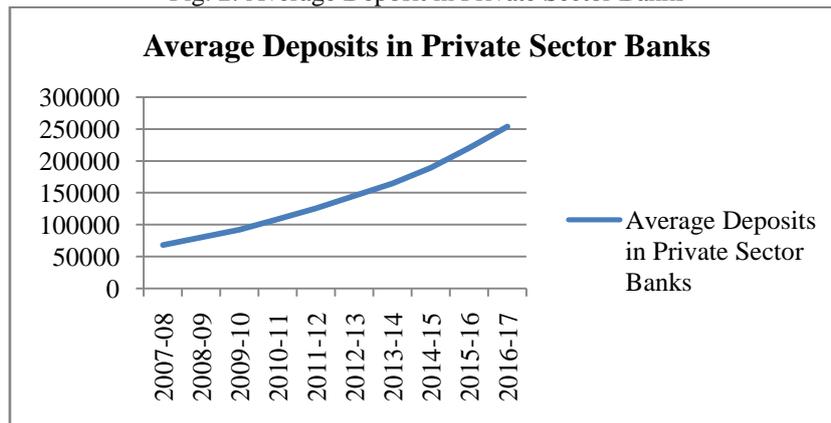
From the data collected from 8 public sector banks, average deposits generated by these PSB for every year has been calculated. The trend shows that the deposit with PSB is increasing over a period of 10 years. There are slight fluctuation in deposits has been observed in the year 2015, which later on again pick upward in year 2016 – 17.

Table 2: Average Deposit in Private Sector Banks

| Year | Average Deposits in Private Sector Banks |
|---------|--|
| 2007-08 | 68231 |
| 2008-09 | 80427 |
| 2009-10 | 92199 |
| 2010-11 | 108520 |
| 2011-12 | 125723 |
| 2012-13 | 145112 |
| 2013-14 | 164881 |
| 2014-15 | 189168 |
| 2015-16 | 219954 |
| 2016-17 | 253564 |

Source: RBI Statistics

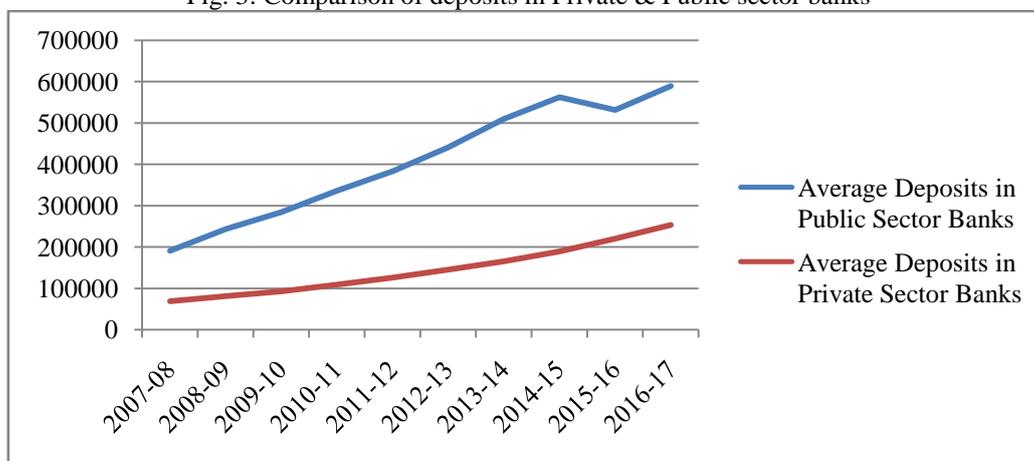
Fig. 2: Average Deposit in Private Sector Banks



Source: Secondary Data

In case of private sector banks, similar calculations has been done for calculating average deposits of private sector banks, the trend shows that the deposit with private sector banks is also showing rising trend.

Fig. 3: Comparison of deposits in Private & Public sector banks



Source: Secondary Data

From the above table it can be observed that the deposits of Public sector and private sector banks are on rising trends. Public sector banks are performing better compared to private sector banks in terms of deposit trends.

5.1 Hypothesis Testing

The primary assumption taken while studying the deposits pattern of public and private sector banks is average deposit with public sector is average deposits in public sector banks having no significant difference to that of private sector banks. Here, hypothesis statement is

Average of Deposits in Public Sector banks = average of Deposits in Private Sector banks.

To test this hypothesis, t – test is used for equality of two sample mean (As we don't know population standard deviation)

Given n1 (no. of years average deposits of public sector banks) = 10,

Given n2 (no. of years average deposits of private sector banks) = 10

Average deposits with public sector banks are $\bar{x}_1 = 4,06,793$ crore

Average deposits with private sector banks are $\bar{x}_2 = 1,44,778$ crore

$$S_1^2 = 4,06,793 / 10 = 40,679.3$$

$$S_2^2 = 1,44,778 / 10 = 14,477.8$$

The estimated variance is :

$$S^2 = \frac{n1 \cdot S_1^2 + n2 \cdot S_2^2}{n1 + n2 - 2}$$
$$= \frac{10(40,679.3) + 10(14,477.8)}{10 + 10 - 2}$$
$$= 30,642.83$$

$$S = (30,642.83)^{1/2}$$
$$S = 175.05$$

$$t = \frac{\bar{x}_1 - \bar{x}_2}{S} \times (n1 \cdot n2 / (n1 + n2))^{1/2}$$
$$= \frac{4,06,793 - 1,44,778}{175.05} \times ((10 \times 10) / (10 + 10))^{1/2}$$
$$= 1496.8 \times 2.24$$
$$t = 3352.83$$

The tabulated value of t for 18 d.f at 1% level of significance is 2.88, the calculated t value (3352.83) is greater than 2.88. So, we reject the null hypothesis H0 and conclude that average deposits generated by public sector banks and private sector banks are having significant difference.

- Correlation coefficient between average deposits of public sector banks and private sector banks is not significant.

The correlation coefficient between the average deposits of public sector banks and private sector banks for the period 10 years is 0.95.

To test whether this correlation coefficient between the given variable is significant at 1% level of significance

$$t = \frac{r(n-2)^{1/2}}{(1-r^2)^{1/2}}$$
$$= \frac{0.95(8)^{1/2}}{(1-(0.95)^2)^{1/2}}$$
$$= \frac{0.95 \times 2.82}{(1-0.9025)^{1/2}}$$
$$= \frac{2.679}{0.3122}$$
$$t = 8.58$$

Since the tabulated value is lower than the calculated value, there is no reason to accept null hypothesis. So we can say that the correlation coefficient is significant between the average deposits of public sector and private sector banks over a period of 10 years.

6. Conclusion

The study reveals that the deposits of public and private sector banks showing a rising trends. In public sector banks the average growth rate of 8 banks over a period of 10 years is 14%. In private sector banks the average growth rate is reported by 8 banks in last 10 years is 19%. The deposits of public sector banks are higher than the deposits of private sector banks in the same period. Whereas, when the correlation coefficient between these two variables is calculated. The value of r was 0.95 on testing the significance of this correlation, it was found that the correlation coefficient is significant between public and private sectors deposit over the period of study.

7. Reference

Journal:

- [1]. Venkatesan, S. (2012, sep). An Empirical Approach to Deposit Mobilization of Commercial Banks in Tamilnadu. *IOSR Journal of Business and Management (IOSR-JBM)*, 4(2), 41-45.
- [2]. Kothari, D. S. (2013, December). Impact of Banking Sector Reforms on Profitability of Banking Industry in India. *Pacific Business Review International*, 6(6), 60-65.
- [3]. S, M. P. (2015). An Analytical Study on Trends and Progress of Indian banking Industry. *Journal of Business and financial affairs* , 1-7.

Conference Proceedings:

- [4]. implapure, D. V. (2015). A study of NPAs and its impact on liquidity of commercial banks in India. *G. S.College of Commerce & Economics* (pp. 4-10). Nagpur: Vilas Printing Press.
- [5]. Shah, P. C. (2014). A Study Of Profitability Performance Of Indian Banking Sector With Special Reference To Selected Public Sector Banks. *Management: Changing Perspectives & Practices, "PINNACLE 2014" 2 nd National Conference*. nagpur: S.B. Jain Institute of Technology, Management & Research Department of Management Technology.

Website:

- [6]. P, S. N. (2014, December 10). *A Study on the Deposit Mobilization Pattern of the Dindigul District Central Co-operative Bank Limited*. Retrieved May 19, 2018, from omnicsonline.org: <https://www.omicsonline.org>
- [7]. Khare, A. (2018, January 27). *Budget 2018: An Opportunity to Reform the Banking Sector*. Retrieved May 19, 2018, from business-standard.com: http://www.business-standard.com/article/budget2018/budget-2018-an-opportunity-to-reform-the-banking-sector-118012700171_1.html