IOSR Journal of Business and Management (IOSR-JBM)
ISSN: 2278-487X. Volume 4, Issue 2 (Sep-Oct. 2012), PP 41-45
www.iosrjournals.org

An Empirical Approach to Deposit Mobilization of Commercial Banks in Tamilnadu

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Abstract: *Deposit mobilization is an integral part of banking activity. Mobilization of savings through intensive deposit collection has been regarded as the major task of banking in India today. Acceptance of deposits is the primary function of commercial banks. As such, deposit mobilization is one of the basic innovations in current Indian banking activity. Hence, in this paper, an attempt is made to empirically evaluate the trend and growth in deposit mobilization of scheduled commercial banks in Tamil Nadu during the period from 1999-2000 to 2008-2009. Three different types of deposits, namely current deposit, savings deposit and term deposit is considered for the study. The total number of deposits accounts and total amount of deposits mobilized during the years from 1999-2000 to 2008-2009 in all scheduled commercial banks in Tamil Nadu is gathered from RBI bulletin. The collected time series data are subjected descriptive statistics. The Compound Growth Rate (CGR) and Linear Growth Rate (LGR) are calculated using simple regression analysis. From the results of the analysis, it is found that there has been a remarkable growth in mobilization of all kinds of deposits in scheduled commercial banks in Tamil Nadu on the whole.*

Key Words: *Compound Growth Rate (CAGR), Linear Growth Rate (LGR), Simple Regression*

I. Introduction

Indian banks are now trying to attract more deposits by introducing attractive savings schemes. Under the new 20-point program (1975), the Government had impressed upon the banks to make all possible efforts to search for new deposits, because only deposits can provide them the where withal for lending. To contribute their share in the overall rural development, the banks have to mobilize deposits on a large scale in the rural areas. The resources obtained by banks through deposits and borrowings have to be deployed properly to get the maximum return out of it, in terms of profit and socio-economic objectives of the Government [2]. A substantial part of the resources is however, prompted by the cash reserve and statutory liquidity ratio requirements. Of the remaining resources also a large chunk is subject to RBI's regulation. The credit policy of the Government and the rigidity with which it is implemented determines the amount of deployable resources available to a bank and also the areas where it can be profitably deployed.

It is gratifying to note them scheduled commercial banks have accepted the new challenge and been making great efforts in finding out and exploiting new sources of deposits in recent years. Especially, the performance of public sector banks in the field of deposit mobilization in rural and semi-urban centers has been very commendable. The SBC's have contributed greatly to the development of banking habit among through sustained publicity, extensive branch banking and relatively prompt service to customers.

II. Literature Review

Emphasized the implications of margin in funding an follow up and secondly, the ways to use margin as a credit management tool for quality assets and found that using margin as an effective credit management tool at all stages of advance would call for a drastic change in risk perception and credit administration. To sum up, banks should lay a conscious premium on margin by permitting healthier units a greater access to banks funds. The present working capital gap approach based on estimated minimum margin should be replaced by graduated scale of margin based on risk perception or credit rating. The cost of servicing weal units, i.e., higher cost and lower return, should be well appreciated and remedied by reducing exposure in them and increasing both interest and margin stipulations for them. By extension, rehabilitation should be a credit decision based strictly on clear commercial viability ensured through adequate margin commitments. The leitmotif of the entire approach to lending should be the net worth or margin to ensure asset quality and profitability. They also found the relationship between deposits and national income will change and the proportion of bank borrowings to total borrowings of the corporate sector would decline and metropolitan deposits would row faster than normal, while other deposits would grow slower.

Framed the objectives in the research paper that overall deposit mobilization performances of all the scheduled commercial banks of India during the period 1985-98 and concluded that the significant influencer of GDP and Branch expansion on time deposits during the period under consideration. The results also suit with the present experiences of the commercial banks in India. A rise in GDP will no doubt have a favorable effect

on time deposits and hence on the profitability of the SCBs. But the branch expansion during the period instead of having a favorable impact has an unfavorable impact on the volume of time deposits. Unwise expansion of branch simply with a view to spreading the banking facilities has an unfavorable impact and hence on profitability of the SCBs of India. This is also supported by a very recent statement made by the trade union of the United Bank of India (UBI). The Union in their representation to the M.S.Burma Committee submitted that the UBI suffered a loss due to unwise branch expansion especially in the rural areas. He also indicates that a very cautious approach is to be taken before implementing any policy of branch expansion by the SCBs.

The strategies must be employed for utilization of mobilized resources in a productive manner. He suggested that within the broad framework of economic planning, Government has introduced considerable relaxation in industrial and import-export trade regulations and those concerning technology. Thus, external trade is becoming a going ratio of GDP. As a result of the growth of the modern sector, the flows of goods and services have become less seasonal an the distinction between what had traditionally come to be known as the 'busy' and 'slack' seasons for the ebb and flow of banking variables has got blurred. All of these changes have produced a situation where the interaction between the real sector and the financial sector has become quicker; this has created the necessity and scope for introducing flexibility in the operations of monetary and credit policies.

The objectives that need for certain refinement in measuring profitability of PSBs so that current profits are not earned at future cost. A need for risk factoring to profits will exacted so as to reflect a correct and true position of profit and loss account. The arguments would also point towards need for measuring risk so as to find ways to hedge against the various types of asset liability risks and he also concluded that a prudent method could be to perceive the risk, measure it and provide for it from out of present profits to reflect a market position of all assets. Doing so, only for investments, certain positive measures can be taken by the banks for their profit. The transparency in the profitability of PSBs and in a bid to mark the balance sheet to market using a balanced risk absorption strategy

Definition of Terms

The bank deposits are broadly classified into three types [5] as (i) Current deposits (ii) saving deposits (iii) Term deposits.

Current deposits: It is a deposit generally used by businessman, industrialist and other to settle debts. These current deposits, on which cheques are issued, are also known as cash deposits or demand deposits.

Saving deposits: most people as a form of savings maintain these deposits so as to earn interest from the banks. The saving deposits are not only held to meet the needs of the present or the near future but are also kept by individuals as part of their total stock of wealth.

Term deposits: In this deposit, deposited money will be kept by bank for some specified terms [6]. The money can be withdrawn only after a given period of time (or) term.

Research Aims

This research aims at establishing an trend and growth in deposit mobilization of scheduled commercial banks in Tamil Nadu empirically.

Hypothesis

The followings are the null hypothesis for present research work:

1. There was no significant increase in the number of current deposits of commercial banks in Tamil Nadu over the span of ten years.
2. There was no significant increase in the number of savings deposits of commercial banks in Tamil Nadu over the span of ten years.
3. There was no significant increase in the number of Term deposits of commercial banks in Tamil Nadu over the span of ten years.
4. There was no significant increase in the amount of current deposits of commercial banks in Tamil Nadu over the span of ten years.
5. There was no significant increase in the amount of savings deposits of commercial banks in Tamil Nadu over the span of ten years.
6. There was no significant increase in the amount of Term deposits of commercial banks in Tamil Nadu over the span of ten years.

III. Methodology

This study is based on secondary data for the span of tem years from 1999-00 to 2008-09, which comprises of information regarding current deposit, savings deposit and term deposits of scheduled commercial banks in Tamil Nadu. These data were obtained from statistical handbooks and broachers published by Reserve Bank of India (RBI). The following statistical tools are used for the analysis of secondary data.

The data are first subjected to descriptive statistics, namely Mean, Standard Deviation, and Coefficient of variation in order to know the central tendency, dispersion and volatility in the data. Next simple linear regression technique is used to calculate CGR and LGR. The statistical significance of the CGR and LGR is ascertained by Student t-test as produced by the regression analysis.

Limitation of the study

This study is limited to scheduled commercial banks in Tamil Nadu, not other States in India. Only deposit mobilization is considered and credit operations are not undertaken. This study is restricted to the period 10 years from 1999-00 to 2008-09.

IV. Results and Discussion

Table I reports the trend and growth in deposit-wise number of accounts in scheduled commercial banks in Tamil Nadu.

Table I
Trend and Growth Number of Deposit Accounts in Scheduled Commercial Banks in Tamil Nadu

(in '000)

Year	Current Deposit	Savings Deposits	Term Deposits
1999-00	1916	19997	6985
2000-01	1957	20018	7018
2001-02	1996	20169	7062
2002-03	2019	21018	7150
2003-04	1998	20987	7693
2004-05	2082	20889	8433
2005-06	2075	21383	9169
2006-07	1786	20759	9512
2007-08	1729	20920	9814
2008-09	1727	21114	11251
Mean	1929	20725	8409
SD	135	488	1480
CV	7.01	2.35	17.60
CAGR	-1.35*	0.60***	5.58***
t-Value	-1.98	3.37	10.45
LGR	-24.82*	123.12***	466.75***
t-Value	-1.89	3.35	9.07

SD – Standard Deviation; CV – Coefficient of Variation; Degrees of freedom = 8 for t-values
CAGR – Compounded Annualized Growth Rate; LGR – Linear Growth Rate
t- table value for 8 d.f @10% = 1.86, @5% = 2.31 and @1% = 3.35
*Significant at 10% level; **Significant at 5% level; ***Significant at 1% level

An examination of the table shows that the number of current deposit accounts, 1916 thousands in 1999-00 declined to 1957 thousands in very next year and then jumped to 1996 thousands in 2001-02 and 2019 thousands 2002-03 before declining to 1998 thousands in 2003-04. After reaching at as high as 2082 thousands in 2004-05, it exhibited a declining trend from 2005-06 until the end year. On the average, number of current deposit accounts stood at 1929 thousands in scheduled commercial banks in Tamil Nadu during the period under study. Overall there was a significant decline in number of current deposit accounts at CAGR of 1.35 per cent (t value = -1.98, $p < 0.10$) and LGR of 25 deposit accounts every year on an average (t value = -1.89, $p < 0.10$) during the period under study.

On the other hand, number of saving deposit accounts exhibited a continuous up trend from 19997 thousands in 1999-00 to 21018 thousands in 2002-03. But between 2003-04 and 2008-09, it was hovering between 20759 thousands (2006-07) and 21383 thousands (2005-06) with crisscross movements. On the average, the number of saving deposit accounts was 20725 thousand during the period. The rate of increase in number of saving deposit accounts was significant at 0.60 when compounded (CAGR = 0.60, t value = 3.37, $p < 0.01$) and 123 accounts in absolute value (LGR = 123, t value = 3.35, $p < 0.01$) on an average every year during the period under study.

At the same time, number of term deposits, 8409 thousands on the average, showed a continuous increase from 6985 thousands in 1999-00 to 11251 lakhs in 2008-09 at significant CAGR of 5.58 per cent (t

value = 10.45, $p < 0.01$) and LGR of 467 accounts (t-value = 9.07, $p < 0.01$). In sum, it was found that there is a significant increase in the number of current deposits, saving deposits and term deposits over the period under study. Therefore, **the null hypothesis 1, 2 and 3 is rejected**.

As provided in Table II, there was a continuous increase in value of current deposits in scheduled commercial banks in Tamil Nadu during the period. The current deposits with Rs.766634.70 on the average, increased from Rs.598741 lakhs in 1999-00 to Rs.1067418 lakhs at significant compound rate of 6.84 per cent (CGR = 6.84, t value = 11.38, $p < 0.01$) and linear rate of Rs.52050.41 lakhs in absolute value (LGR = 52050.41, t value = 9.37, $p < 0.01$) on an average every year. Similarly, there had been a continuous up trend in value of saving deposits also. The saving deposits, which stood at an average of Rs.1192838.00 lakhs, reached to Rs.2014682 lakhs in the end year from Rs.534178 lakhs in the beginning, significantly at the rate of 16.70 per cent when compounded annually (CGR = 16.70, t value = 37.60, $p < 0.01$) and at Rs.175228.16 lakhs in absolute terms (LGR = 175228.16, t value = 15.91, $p < 0.01$) on an average every year between 1999-00 and 2008-09.

Table II
Trend and Growth in Amount of Deposits in Scheduled Commercial Banks in Tamil Nadu

(in lakhs)

Year	Current Deposit	Savings Deposits	Term Deposits
1999-00	598741	534178	4965821
2000-01	614589	635274	5687410
2001-02	635571	741896	6258942
2002-03	648425	842454	6906650
2003-04	657479	977973	2950263
2004-05	771570	1199147	3546776
2005-06	813964	1394246	4098278
2006-07	885318	1625876	4817747
2007-08	973272	1962654	5512317
2008-09	1067418	2014682	6213418
Mean	766634.70	1192838.00	5095762.20
SD	164618.11	538843.03	1269151.00
CV	21.47	45.17	24.91
CAGR	6.84***	16.70***	-0.54
t-Value	11.38	37.60	-0.17
LGR	52050.41***	175228.16***	-30496.10
t-Value	9.37	15.91	-0.21

SD – Standard Deviation; CV – Coefficient of Variation; Degrees of freedom = 8 for t-values
CAGR – Compounded Annualized Growth Rate; LGR – Linear Growth Rate
t- table value for 8 d.f @10% = 1.86, @5% = 2.31 and @1% = 3.35
***Significant at 1% level

On the other hand, amount of term deposit exhibited a declining trend but insignificantly during the period under study. The term deposits, after oscillating between Rs.2950263 lakhs (2003-04) and Rs.6906650 lakhs (2002-03), the rate of decline in it was 0.54 per cent when compounded annually and Rs.30496.10 lakhs when measured in absolute value. However, both growth rates are insignificant. This reveals that there was neither decrease nor increase in amount of term deposits in commercial banks in Tamil Nadu over the period of ten years under study. Putting all the above together, it was found that there had been a significant trend and growth in amount of current deposits and saving deposits whereas the amount of term deposits remains unchanged during the period of study. Based on the above findings **null hypotheses 4, 5 and 6 are all rejected.**

V. Conclusions

It is concluded that there was a significant up trend and growth in current deposits in terms of value despite there was a significant decline in number current deposits accounts in scheduled commercial banks in Tamil Nadu during the period from 1999-00 to 2008-09. Regarding saving deposits, it is concluded that there was a significant trend and growth in it both in terms of number of accounts and in value (amount). But the scenario was different in the case of term deposits in scheduled commercial banks. The number of term deposits exhibited a significant growth and trend but there was neither decrease nor increase in it when evaluated by

value. On the whole, it is concluded that the scheduled commercial banks in Tamil Nadu performed well in deposit mobilization in ten years from 1999-00 to 2008-09.

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