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Effect on weak and non-weak banks in deposits and advances

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Abstract

Financial wellness can be conceptualized as a level of financial health. It includes satisfaction with material and non-material aspects of one's financial situation, perception of financial stability including adequacy of financial resources, and the objectives amount of material and non-material financial resources that each individual possesses.

Several different types of scales can measure financial wellness. First an objective scale of economic status, such as income, consumption, wealth and assets, can be used to measure financial wellness. It is measured financial well-being as the amount of money income and used quantitative, observable indicators, such as income and savings, to measure financial well-being. It is subjective perception of personal finance can be used to measure financial wellness. It also measured financial well-being using a perceived measure of financial domain. The financial domain included cash management, credit management, capital accumulation, risk management, retirement and estate planning, and general management. It is measured perceived economic well-being using satisfaction with the household financial situation and perceptions of income adequacy and change in financial condition.

Keywords: Weak bank, non-weak bank, capital, advances, deposits

Introduction

Financial management refers to rising of funds, their effective utilization enabling to achieve overall objectives of the firm. Simple financial management means, manage the finance. In other words, financial management is the overall management effort which is closely associated with planning and controlling of a bank's of financial resources. Financial management is a specialized function of general management. Financial management gives special attention for the effective management of funds. A bank manager must understand the real problems associated with the procurement of fund and identify appropriate way for optimum utilization of it.

The modem concept of the financial management is to focus on the acquisition of funds as well their proper allocation. In the respect the organization has to critically examine financial problem of a bank. The important content of the new approach relates to various important financial decisions.

Banking is essentially a service industry. The measurement of productivity in banks in particular has remained rather complex and ambiguous. Various approaches have been made to study productivity in banks, but none of those is free from strict assumptions. These approaches could be described as sort of best approximations to the whole range of issues that go into determining productivity in banks. Nevertheless, it is essential to first measure productivity as appropriately was possible.

Scope of Study

The study should be focused to the Public Sector Banks in India. Six Public Sector banks have been taken as sample study, namely Indian banks, United Bank of India, UCO Bank, State Bank of Bikaner & Jaipur, Allahabad Bank and Syndicate Bank. The present study aims to study and examine the problems of nationalized banks in India and diagnose the cause of weakness and suggest a strategic plan of financial organizational and operational efficiency for weak banks.

Introduction of Weak and Non Weak Bank

Table 1: The establishment year of the weak bank and non-weak bank has been summarized as under.

Name of the Bank	Year of Establishment
Weak Bank	
UCO Bank	06 Jan 1943
United Bank Of India	1950
Indian Bank	15 Aug 1907
Non Weak Bank	
SBBJ Bank	Jaipur, 1963
Allahabad Bank	24 Apr 1865
Syndicate Bank	UDUPI, 1925

Capital Structure

Table 2: The capital of weak bank and non-weak bank has been show as under

Name of the Bank	2010	2011	2012	2013	2014
Weak Bank					
UCO Bank	1699	2450	2488	2576	2576
United Bank Of India	866	1144	1161	1175	1175
Indian Bank	830	830	830	830	830
Non Weak Bank					
SBBJ Bank	50	50	70	70	70
Allahabad Bank	447	476	500	500	544
Syndicate Bank	522	573	602	602	625

It will be observed from the above that the capital of the UCO bank has been increasing constantly from Rs. 1699 Cr. in 2010 to Rs. 2576 cr. in 2014. It means a company has made public issue in 2011, 2012 and 2014 for Rs. 2450, 2488 and 2576 cr. respectively. Similarly united bank of India has also increase their capital from Rs. 866 cr. in 2010 to 1144 cr. in 2011. Again the company has made public issue in the year 2012 and increases its capital to Rs. 1161 cr. and further increase to Rs.

1175 cr. in 2014. In Indian bank the capital remains constant Rs. 830 cr. for the period of study. In SBBJ bank the initial capital was Rs. 50 cr. and from the year 2012 and onward it increase to Rs. 70 crs. In Allahabad Bank the initial capital of the bank was Rs. 447 cr. in the year 2010 and which has been shown increasing trend and reached to 544 cr. in the year 2014. In Syndicate bank has also shown increasing trend in its capital from Rs. 522 cr. in 2010 and rose to Rs. 625 cr. in 2014. It further shows that highest capital in weak bank was in UCO bank and the lowest capital was in SBBJ Bank during the period of study

Table 3: Deposit and Advances a comparison of advances and deposits has been done for the selected bank and represent in the following manner

Name of the Bank	2010	2011	2012	2013	2014
Weak Bank					
UCO Bank	1699	2450	2488	2576	2576
Deposits	1002216	1224156	1452776	1540035	1734310
Advances	688039	825045	990708	1155400	1282829
Increase/ Decrease	314147	399111	462068	384635	451481
United Bank of India	866	1144	1161	1175	1175
Deposits	545359	681803	778448	891163	1006515
Advances	353935	423300	535024	630433	689087
Increase/ Decrease	191424	258503	243424	260730	317428
Indian Bank	830	830	830	830	830
Deposits	728518	882277	1058042	1208038	1419802
Advances	513965	621461	752499	903236	1056425
Increase/ Decrease	214553	270816	305543	304802	363377
Non Weak Bank					
SBBJ Bank	50	50	70	70	70
Deposits	392244	460588	538523	615721	721162
Advances	298507	351764	412067	492443	575350
Increase/ Decrease	93737	108814	126456	123278	145812
Allahabad Bank	447	476	500	500	544
Deposits	849718	1060558	1318872	1595931	1787416
Advances	588018	716049	936249	1111451	1294897
Increase/ Decrease	261700	344509	382623	484480	492519
Syndicate Bank	522	573	602	602	625
Deposits	1158851	1170258	1355961	1579411	1853559
Advances	815323	904064	1067819	1236202	1475690
Increase/ Decrease	343528	266194	288142	343209	377869

From the above exhibit it appears that UCO bank the deposits of the bank has been showing increasing trend from the year 2010 to 2012 but in the year it has gown down by Rs. 384635 cr. In the year 2013 but however it has rose by 17.35 % in the year 2014. In united bank of India deposits has grown up Rs. 67079 cr. in 2011 but in the year 2012 it has decrease by Rs. 15079. cr. In 2013 the deposits has increase by Rs. 17306 cr. And further increase to 7.10 % in the year 2014. The deposit Indian bank has rising trend from the year 2010 to 2013 which was higher by 42.40% but during the year 2014 the deposit rate has gown down 0.24 % but however it has again rose to 19.21 %. The tendency of the deposit in SBBJ has been showing increasing trend from the 2010 to 2014 which was increase by 55.55 %. In Allahabad bank the rising trend has been found continuously from the year 2010 till 2014.The increase was notice in Allahabad bank 88.19%.The deposit rate of syndicate bank has shown fluctuating trend from the year 2011 which was below 22.51% but however in the year 2012 which has increase to 31.13% in the year 2014.

Table 4: Statement Showing Deposits

Name of the Bank	2010	2011	2012	2013	2014
Weak Bank					
UCO Bank	1002216	1224156	1452776	1540035	1734310
United Bank Of India	545359	681803	778448	891163	1006515
Indian Bank	728518	882277	1058042	1208038	1419802
Total	2276093	2788236	3289266	3639236	4160627
Non Weak Bank					
SBBJ Bank	392244	460588	538523	615721	721162
Allahabad Bank	849718	1060558	1318872	1595931	178416
Syndicate Bank	1158851	1170258	1355961	1579411	1853559
Total	2400813	2691404	3213356	3791063	4362137

Table 5: Statement Showing Advances

Name of the Bank	2010	2011	2012	2013	2014
Weak Bank					
UCO Bank	688039	825045	990708	1155400	1282829
United Bank Of India	353935	423300	535024	630433	689087
Indian Bank	513965	621461	752499	903236	1056425
Total	1555939	1869806	2278231	2689069	3028341
Non Weak Bank					
SBBJ Bank	298507	351764	412067	492443	575350
Allahabad Bank	588018	716049	936249	1111451	1294897
Syndicate Bank	815323	904064	1067819	1236202	1475690
Total	1701848	1971877	2416135	2840096	3345937

During the period of study excellent growth was notice in business in which it operates. A significant feature during the period of study has shown high growth in both advances and deposits which exceeded industry average, leading to a significant increase in its market share. Deposit in weak bank grew by 14.33% in the year 2014 as against the year 2010-2011. Deposits in non-weak bank witnessed a robust growth @(15.06%) of Rs. 5,71,074 cr. With continued focus on low cost CASA deposit which registered a growth of 23% during the period of study.

Similarly weak bank advances portfolio witness a poor growth 12.62% over the period of 2010. And advances for non-weak bank indicate remarkable increased to 17.81% over the period of 2010-11.

The scale of business and thereby the profitability is a function of quantum of deposits with the bank. These are the main source of fund to the bank for the purposes of investment and advances. Deposits imply costs to the banks also because interest is to be paid to the depositors. Service cost of time deposits to low but they are the most expensive but on the other hand the demand deposits are cheaper but their service cost is high. The deposits are a fund used for advancing loans and making investment. This in turn brings income to the bank. Due to direct access of corporate sector in raising the funds from capital market, the banks are facing a shortage of remunerative advancing opportunities.

Conclusion

To conclude it can be said that majority of the studies are too aggregative and if somewhere disaggregation is achieved methodological problems are there. Studies have been done either in the production function approach or in the ratio analysis approach. This kind of approach is parametric and confounds the effects of misspecification of functional form with inefficiency. As an alternative to it, few studies have used the programming model that is non-parametric and population based and hence is less prone to this type of specification error. Hence, the efficiency evaluation at a disaggregated level is relatively a less researched area and there seems to be an ample scope for the same. Weak Bank has shown poor performance while splendid growth was observed in non-weak bank. Since immersive rise in profits and containment of NPA, as the same time non weak bank continued to be on the growth trajectory during 2013-14 in respect of branch expression.

Non weak bank has also shown an impressive growth in net profits and operating profits too posted a smart growth on the back of healthy increase of in net interest income in driving by growth in advances increase in yield and also increase in other income.

Suggestions

Based on the findings and conclusions, the following suggestions are put forth, which may help to improve the profitability and to improve efficient use of funds available for productive purpose.

1. A Debt Equity Ratio 1:1 is normally considered satisfactory. Lenders usually like a low debt to equity ratio because a low ratio (less than 1) is the indication of greater protection to their money. But stockholders like to get benefit from the funds provided by the creditors therefore they would like a high debt to equity ratio. (more than 1). A debt-equity ratio of 2:1 is generally considered reasonable. Therefore, State Bank of India should not allow the Debt Equity Ratio to cross the limit of 2:1.
2. State Bank of India should also not allow the Debt Equity Ratio to cross the limit of 2:1
3. State Bank of India itself and its Associates Banks should have to increase Net Worth in Capital employed.
4. State Bank of India and their group must create strategic alliance with the rural regional banks to open up rural branches and increased use of technology for improved products and services.
5. Banking sector were in India need to move towards a more market based system for to create the sound and condition for well-functioning of a market based banking system.
6. Banks should concentrate more on improving total income i.e. interest and non-interest income. For increasing non-interest income, it is important for the banks to target on providing value added service.
7. Deposits, which play a major role of bank liabilities, needs to be explored to the maximum potential. Bank must put maximum efforts to attract fixed deposits which contribute significantly towards the enrichment of bank profitability. Admittedly mobilizing fixed deposits is becoming difficult due to competition from mutual funds; still, scope for enhancement of short term deposits exists by improved customer service, attractive rates of interest in proportionate with other non-banking financial institutions, better nomination facilities and by the introduction of sophisticated technology and communication systems.
8. The establishment or operating expenses needs to be monitored regularly after dividing it in controllable and non-controllable aspects. Though the staff salary structure of banks is subject to agreements with the trade unions, but the utilization of manpower resources to the optimum advantage is within the control of managements. Moreover, if staff assessment is carried out on the basis of activity analysis and productivity criteria, it could be

possible to attain higher business volume with minimum staff and thus operating cost can be substantially reduced and bank profitability can be improved.

9. It would also be important for the banks in improving profitability by managing interest rate volatility through adopting best practices in fund management. Regular monitoring of risk elements and asset liability gaps for example, enables the banks to better manage liquidity risks that can contribute much to the profitability of banks. Similarly, other possible measures of reducing interest rate volatility include introducing refinance facility and market stabilization funds creating higher capability to procure funds and wider access to international markets for funding and hedging the interest rate risks.
10. Effective and regular follow-up of the end use of the funds sanctioned is required to ascertain any misuse or diversion of funds.

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