

# Increase in Low Cost Bank Deposit (CASA) During Covid 19 Crisis: Possible Reasons & Impact on Profitability - A Comparative Analysis on Select Commercial Banks in India

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## ABSTRACT

Since 2020-2021, high uncertainty about the Covid pandemic and future economic prospects strengthened motives for precautionary saving, discouraging investment and purchases of durable goods. Current account and savings account deposits grew at a faster pace than term deposits, possibly reflecting the propensity of savers to hold more liquid assets in the highly uncertain pandemic situation since it enabled to withdraw demand deposits as per convenience without any constraints. Therefore, higher the CASA ratio enhanced the net interest margin, which signified better operational efficiency of the bank. This contributed to increased profitability. In this scenario, the present study attempted to make a Comparative Analysis of the low-cost deposits i.e. Current account and Savings account of the top five leading commercial banks in India, namely: HDFC Bank, State Bank of India, ICICI Bank, Kotak Mahindra Bank & Axis Bank and how CASA deposits impacted on their profitability during the Covid crisis period 2020-2021. The study was based on secondary data. Comparative Statement Analysis, Pearson's correlation, and Bar graph were used. The findings concluded that there had been significant increase in CASA deposits, decrease in interest expenditure and positively correlated with the profitability of the banks during the covid crisis period of 2020-21.

**KEYWORDS:** Low cost deposit, CASA, Profitability, Covid Crisis, Precautionary Saving, India

## 1. INTRODUCTION

### 1.1. Conceptual Understanding

A bank is a financial institution that acts as a financial intermediary between depositors and borrowers, which functions to collect and channel public funds. The growth of a bank is strongly influenced by its ability to raise deposits from the public, particularly 'Low Cost Deposits'. Primarily, banks offer two types of deposit accounts. These are term deposits such as fixed or recurring deposits or non-term deposits such as current and savings accounts (CASA). Term deposits are valid for a fixed time and in return the bank pays a fixed interest rate provided the customer does not touch the money in the meantime. On the other hand, current and savings accounts are used for day-to-day transactions and are valid for as long as the customer desires.

### 1.2. Covid Crisis and growth of CASA

Since the years 2020-2021, the world has been facing a very dreadful threat by the Covid Pandemic crisis. As of 31 December 2020, COVID-19 has infected over 82 million people and killed more than 1.8 million worldwide. High uncertainty about the Covid pandemic and future economic prospects have strengthened motives for precautionary saving, discouraging investment and purchases of durable goods. Deposits in Current and savings accounts (CASAs) grew at a faster rate than time deposits, perhaps reflecting a tendency of savers to hold more liquid assets in the future due to uncertain situation of the pandemic. Banks offer lower CASA interest rates than term deposits. CASA is a cheaper source of capital for banks as its interest rates are lower than term deposits. It reflects the bank's ability to raise

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funds with lower borrowing costs and increased profitability.

### 1.3. Scenario of low cost deposits in Commercial Banks- at Global & National level

This scenario has been seen in different banks in different countries globally. In Bangladesh, one of the leading commercial Banks, namely Sonali Bank, there is increase in CASA to Total Deposit Ratio from 54.331% in 2019-20 to 55.164% in 2020-21. The cost of fund has been reduced from 5.29% in 2019-20 to 5.23% in 2020-21. (Sonali Bank, Annual Report 2020). In the Philippine National Bank, one of the largest banks in the Philippines, Demand Deposits went up by 12.5% in 2020. Its net interest income, which accounts for 79% of total operating income, grew 11% supported by lower funding costs, enabling lower yields on earning assets. Interest expense on deposits has fallen to almost half from a year ago despite an 8% increase in deposits, as the majority of these additional deposits continue to be low-cost funds, combined with a reduction in high-cost deposits (Philippine National Bank, Annual Report 2020).

In India, bank deposits increased by 11.9% year-on-year in 2020-21, compared with 8.8% in 2019-20, driven by strong growth in current and savings account (CASA) deposits. CASA deposit rate increased to 43.7% in March 2021 from 41.7% a year ago. (RBI Bulletin March, 2021)

### 1.4. Literature Review

Mishra (1993) pointed out that better credit mix, deposit mix, efforts to increase in non-fund based revenue and limiting non-performing assets to the lowest are needed for improving the profitability of the bank.

Amuthan. R & Rama Chandran. A (2011) concluded in their study was that in the case of next-generation banks, CASA produced all kinds of positive effects on all variables, namely branch growth, net profit margin and profitability. operating profit, but it did not produce any kind of positive effect on the three criterion variables in the case of nationalized banks. Thus, the profit is achieved only due to other factors

Mallya, Prita D (2012), compared three groups of banks in terms of total deposit growth, commercial bank's share of total regular deposits and low-cost CASA deposit growth. It can be seen that the effect of deposit growth is very erratic, especially for private sector banks and foreign banks. Post-crisis deposit

growth of public sector banks is better than the other two groups of banks

According to Janakiraman (2018), his research tries to figure out what the impact of CASA deposit growth will be. and it helps banks to increase their profit margin and thus improve their profitability.

### 1.5. Research Gap

From the above literature review, it was seen that different studies had been conducted on the impact of different financial variables on the profit of the banks. But, a study had hardly been conducted on increase of low cost funds in the covid crisis period, the issues how and what extent it had influenced CASA Ratio, Interest expenditures on Deposits and profitability of banks. The present study's objectives attempted to bridge this gap.

### 2. Objectives Of Study

- A. To find out the CASA position (i.e. actual CASA amount and CASA to Total Deposit Ratio) in the select banks in Covid crisis period 2020-2021
- B. To find out the position of interest expenditure on Deposits and Operating Profit during the said period
- C. To find out the relationship between CASA and Operating Profitability of the banks.

### 3. Research Hypothesis

On the basis of the objective of study, the following hypothesis is set:

Null Hypothesis: There is no relationship between CASA deposits and Operating Profitability of the banks during Covid crisis period 2020-2021

Alternative Hypothesis: There is relationship between CASA deposits and Operating Profitability of the banks during Covid crisis period 2020-2021

### 4. Research Methodology

The present study is based on Descriptive Research with the help of secondary data which have been obtained from published standalone audited annual reports of the select banks, RBI annual reports, economic journals, research papers and internet. Top five leading commercial banks in India namely: HDFC Bank, State Bank of India, ICICI Bank, Kotak Bank & Axis Bank are selected. The study is conducted for the Covid crisis period 2020-2021. Comparative Statement Analysis, Pearson's correlation, Casa Ratio, Pie chart and Bar graph tools are used for Data analysis & Interpretation.

## 5. Results and Analysis

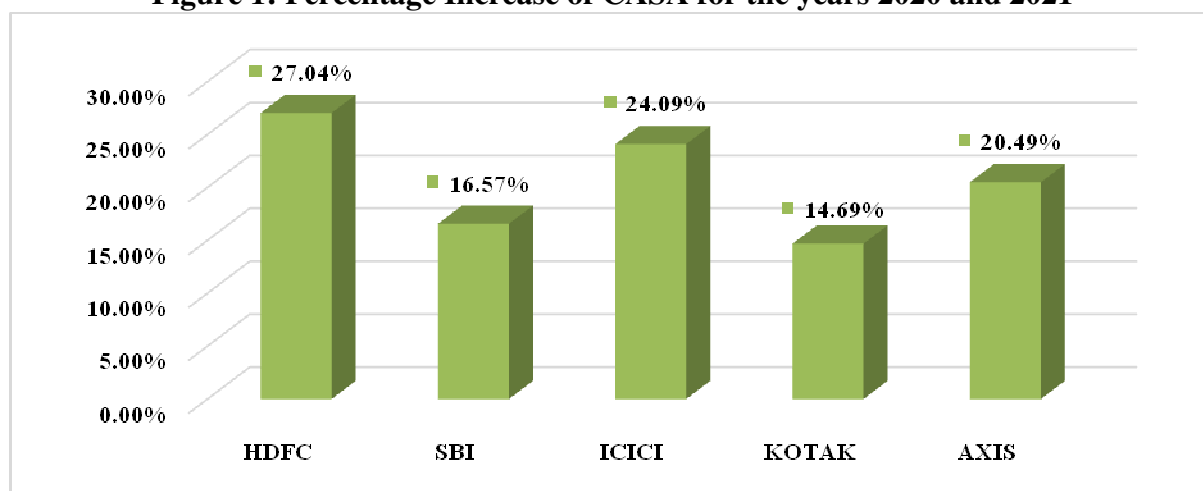
**Table 1: Comparative Statement of CASA of the Banks**

Particulars	HDFC	SBI	ICICI	KOTAK	AXIS
<b>CASA as on 31.03.2020 (in Rs)</b>	4846250098	14337075723	3478184586	1476213059	2637060550
<b>CASA as on 31.03.2021 (in Rs)</b>	6156821637	16712812816	4316234279	1693127195	3177487027

Source: Computed by researcher from the data of Bank's Annual Report

It was seen from Table 1 that CASA of each of the five banks had been increased as on 31.03.2021 in comparison to that of 31.3.2020. Further, it was observed from the Figure 1 that HDFC bank had achieved highest percentage increase in CASA deposits (27.04%), followed by ICICI Bank (24.09%), Axis bank (20.49%), SBI (16.5%) and Kotak Mahindra Bank (14.69%) respectively. Therefore, it was noted that Kotak Mahindra Bank had achieved the lowest position in increase of CASA among the banks.

**Figure 1: Percentage Increase of CASA for the years 2020 and 2021**



Source: Computed by researcher from the data of Bank's Annual Report

**Table 2: Comparative Statement of Interest on Deposit of the Banks**

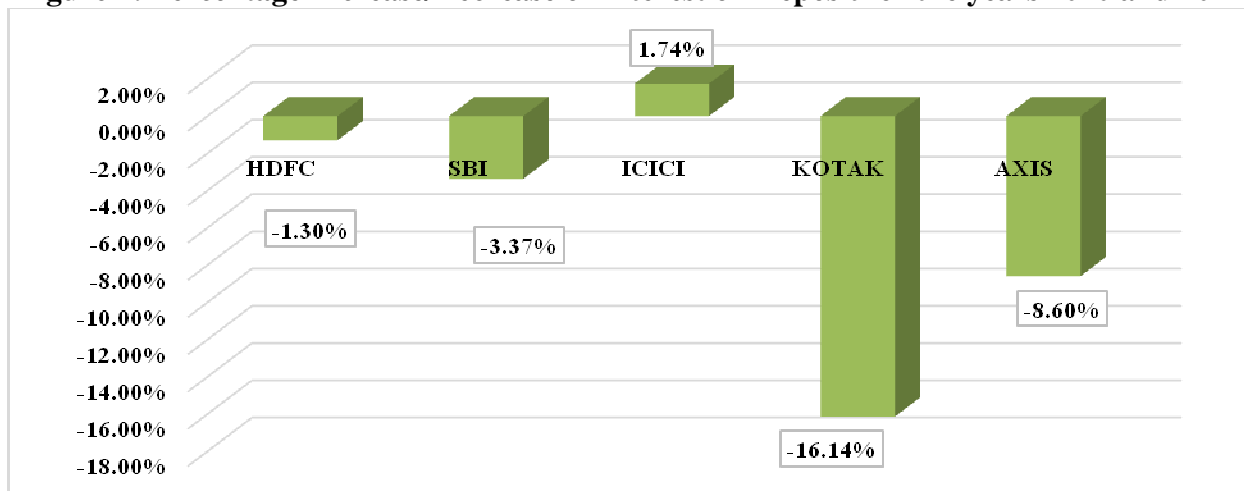
Particulars	HDFC	SBI	ICICI	KOTAK	AXIS
<b>Interest on Deposit as on 31.03.2020 (in Rs)</b>	508037575	1473989633	326877706	120609423	293690561
<b>Interest on Deposit as on 31.03.2021 (in Rs)</b>	501433080	1424352472	332563139	101138966	268432477

Source: Computed by researcher from the data of Bank's Annual Report

Table 2 indicates that interest expenditure had decreased in all the banks except ICICI bank. It was noted from Figure 2 that Kotak Mahindra Bank had the highest percentage decrease of interest expenditure on deposit (-16.14%) followed by Axis bank (-8.60%), SBI (-3.37%), and the least decrease in HDFC bank (-1.30%) respectively.

However, it was found that there was slight increase of interest expenditure (1.74%) in case of ICICI bank which was due to highest increase of term deposits (18%) with higher interest rates in comparison to that of remaining four banks.

**Figure 2: Percentage Increase/Decrease of Interest on Deposit for the years 2020 and 2021**



Source: Computed by researcher from the data of Bank’s Annual Report

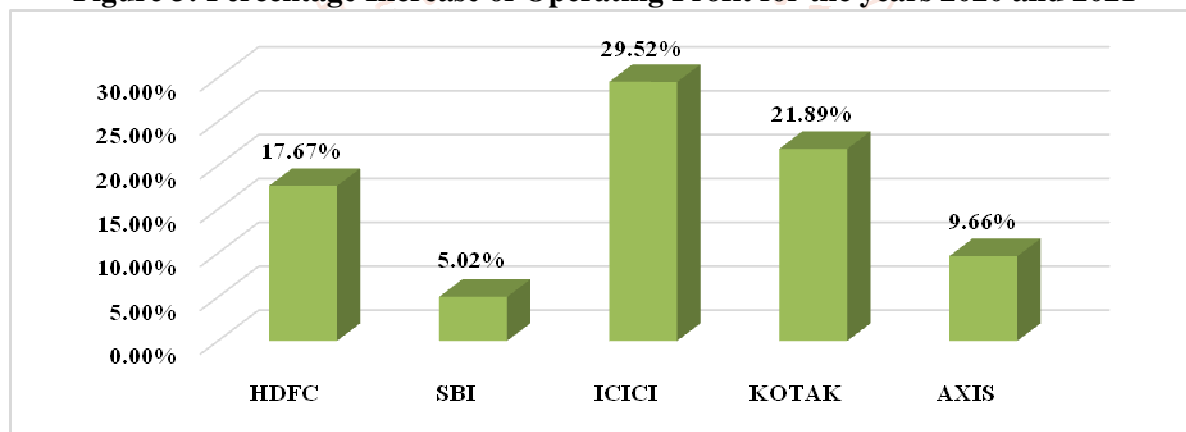
**Table 3: Comparative Statement of Operating Profit of the Banks**

Particulars	HDFC	SBI	ICICI	KOTAK	AXIS
<b>Operating Profit as on 31.03.2020 (in Rs)</b>	487495400	681326100	281010000	100210000	234381400
<b>Operating Profit as on 31.03.2021 (in Rs)</b>	573618300	715541500	363970000	122150000	257021700

Source: Computed by researcher from the data of Bank’s Annual Report

It was seen from Table 3 that Operating Profit of each of the five banks had been increased as on 31.03.2021 in comparison to that of 31.3.2020. It was observed from Figure 3 that ICICI bank had the highest percentage increase of Operating Profit (29.52%), followed by Kotak Mahindra Bank (21.89%), HDFC bank (17.67%), Axis bank (9.66%), and SBI (5.02%) respectively. It was noted that SBI had the least increase of operating profit among the banks.

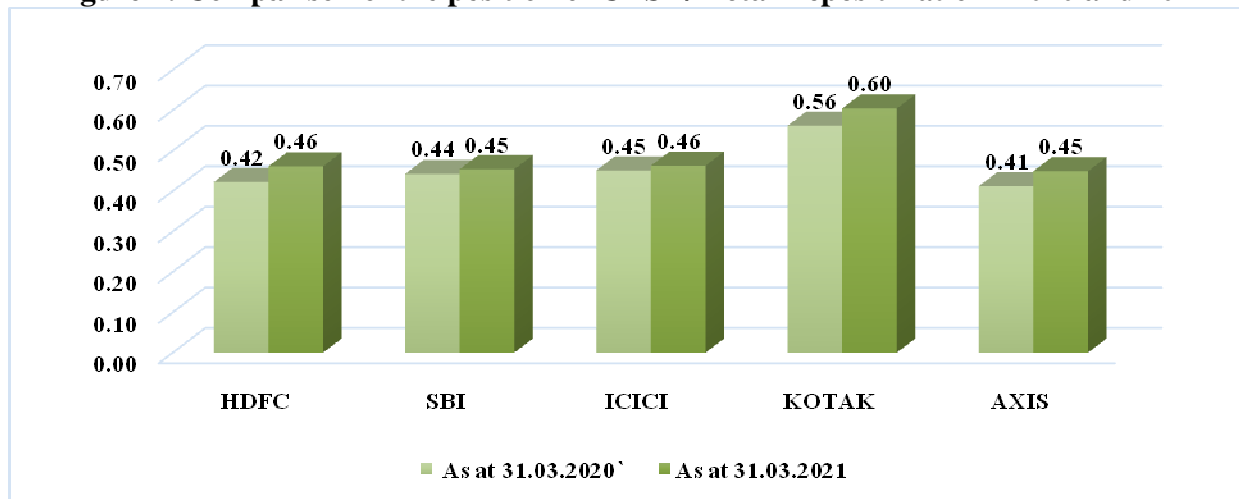
**Figure 3: Percentage Increase of Operating Profit for the years 2020 and 2021**



Source: Computed by researcher from the data of Bank’s Annual Report

In Figure 4 the CASA to Total Deposit Ratio of the five banks in the years 2020 and 2021 was shown. This chart helped to understand the position of CASA out of Total Deposit of the banks and since it carried very meagre rate of interest, resulted in decrease in overall interest expenditure. It could be seen that CASA Ratio is highest in case of Kotak Mahindra Bank is (0.60 times), followed by HDFC bank and ICICI bank (0.46 times in both the cases) and SBI and Axis bank (0.45 times in both the cases) respectively.

**Figure 4: Comparison of the position of CASA/ Total Deposit Ratio in 2020 and 2021**



Source: Computed by researcher from the data of Bank’s Annual Report

**Table 5 Casa Deposits and Operating Profitability of the Five Banks**

Name of Banks	CASA Deposit	Operating Profit
HDFC	5501535868	530556850
SBI	15524944270	698433800
ICICI	3897209433	322490000
KOTAK	1584670127	111180000
AXIS	2907273789	245701550
Pearson Correlation Coefficient =0.900		

Source: Computed by researcher from the data of Bank’s Annual Report

**Table 5 (A): Correlations**

		CASA Deposits	Operating Profit
CASA Deposits	Pearson Correlation	1	.900*
	Sig. (2-tailed)		.037
	N	5	5
Operating Profit	Pearson Correlation	.900*	1
	Sig. (2-tailed)	.037	
	N	5	5

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

Source: Computed by researcher in SPSS

It was seen from Table 5 (A) that there was strong positive relationship between CASA deposit (low cost deposit) and operating profit of the Banks. The Pearson Correlation Coefficient was 0.900 (Table 5 B). The p value (= 0.037) was less than (0.05), i.e. at 5% level of significance. Hence, the null hypothesis is rejected. It seemed that increase of CASA deposit in the covid crisis period 2020-2021 had a positive impact on the operating profitability of the banks. The result was consolidated for five banks covering two financial years ended on 31.03.2020 & 31.03.2021.

## 6. Discussion

### 6.1. Possible reasons of increase of CASA in the covid crisis period:

A. As it was seen that a significant increase had been found in CASA deposits in the top five leading commercial banks in India in the period 2020 and 2021. It was found that depositors had been holding a great sense of high uncertainty and fear about the Covid pandemic that resulted in prolonged expensive treatments, living in home isolation, longer quarantine period vis-à-vis

continuous/ frequent lock down administered by government. These circumstances led the depositor’s propensity to hold more liquid assets.

B. It strengthened motives for precautionary saving, discouraging investment and purchases of durable goods.

C. Further, high growth in bank deposits could be attributed to volatility in equity markets and other investment avenues which would have prompted more people to move to safer deposits.



## 6.2. Findings

It was found that HDFC banks had achieved highest percentage increase in CASA deposits (27.04%) and Kotak Mahindra Bank had achieved the lowest position in increase of CASA among the banks.

1. It was found that Kotak Mahindra Bank had the highest percentage decrease of interest expenditure on deposit (-16.14%) but that there was slight increase of interest expenditure on deposit (1.74%) in case of ICICI bank due to the increase of their term deposits with higher interest rate in the market.
2. It was found that ICICI bank had the highest percentage increase of Operating Profit (29.52%) and SBI had the least increase of operating profit among the banks (5.02).
3. It was found that CASA Ratio was highest in case of Kotak Mahindra Bank (0.60 times), and least in case of SBI and Axis bank (0.45 times in both the cases).
4. The Pearson Correlation Coefficient between Casa and operating profit was found 0.900. Since, the p value ( $= 0.037$ )  $< (0.05)$ , i.e. at 5% level of significance. Hence, the null hypothesis is rejected. There is significant positive association between the variables.

## 7. Conclusion

- The world has been passing through a very painful pandemic situation. Billions of people in different countries have been affected by Covid, and millions of people have already died. This is a dreadful social and environmental phenomenon. From the economic front, the world has been passing through a slowdown period. Unemployment has reached to its larger extent. Production has hampered, demand is low resulting a slowdown in the economy. Banks are not finding new loan portfolio. So, they are unable to generate new income avenue.
- In the present circumstances, the banks are trying their best to reduce their interest expenditure on deposits i.e. to raise low cost funds. So, increasing CASA deposits is the feasible option for them. In this respect, depositor's propensity to save more and keep their savings in the current account and savings account to enable them to withdraw money as and when required to meet exigencies in the covid crisis, gives scope to the banks to increase CASA.
- This concept is attempted to be discussed in the present study. From the findings, it is concluded that increase of CASA deposit in the covid crisis period 2020-2021 has a positive impact on the operating profitability of the top five leading

commercial banks in India. Hence, there is a ray hope in the covid pandemic situation that the said banks are performing well, able to increase its profitability and sustain in economic slowdown.

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