

An Analysis Of The Growth And Status Of Banking Sector In Kerala

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1 st	Dr. D Elango	Assistant Professor, Department of Economics, Govt. Arts College(Autonomous), Coimbatore, Tamil Nadu-India.
2 nd	Smitha P.	Research Scholar, Department of Economics, Govt. Arts College(Autonomous), Coimbatore, Tamil Nadu-India.

Abstract

Banking plays an important role and is considered as the life-blood of modern economy and thereby accelerates the process of production, exchange and distribution of wealth. They are effective partners in the process of economic development and growth. The evaluation of the growth in the banking sector in the current study has been analysed considering the parameters such as number of branches, deposits, NR deposits, advances and the CD ratio. The analysis has been done for a period of 6 years from 2011-2016 as at March data. The trend has been studied for the total banking industry as a whole and group wise analysis of banks such as public sector, private sector and co-operative banks in the state. The total banking industry as a whole in the state has shown progressive trend in terms of branch expansion, deposit mobilisation, foreign remittances, its lending and the credit – deposit ratio. But looking into the group wise analysis of the banking sector in particular the inference is that the public sector banks have shown an impressive trend in all these parameter next to it being the private sector banks.

I. INTRODUCTION

Banks not only aid in the economic development but also bring all in the purview of financial activities. They are essential for mobilizing savings and channelizing them into efficient investments. A well-functioning banking system accelerate economic growth and

development whereas a poorly functioning banking system aggravate the inequalities in the economy. Financial intermediaries help in mobilization of savings, project evaluation, risk diversification, monitoring management of firms in debt, facilitating transactions through technological innovation, and creating an environment for higher economic growth (Charan Singh 2016).

The following functions of the bank explain the need of the bank and its importance:

- ❖ To promote and encourage savings of customers.
- ❖ To stimulate a sizable magnitude of capital formation.
- ❖ To generate employment opportunities.
- ❖ To control the supply of money.
- ❖ To support agricultural development.

II. OBJECTIVES OF THE STUDY

- To highlight the banking network in Kerala state.
- To analyse the performance of the banking industry in general and group in particular with respect to parameters such as branches, deposit and lending.

III. METHODOLOGY

The study is mainly descriptive in nature and is based on the secondary data analysis. Secondary sources of information relied is mainly on the published statistics of banking by the SLBC kerala, RBI, Economic Review Kerala, Working papers etc. The evaluation of the growth in the banking sector in the current study has been analysed considering the parameters such as number of branches, deposits, NR deposits, advances and the CD ratio. The analysis has been done for a period of 6 years from 2011-2016 as at March data. The trend has been studied for the total banking industry as a whole and group wise analysis of banks such as public sector, private sector and co-operative banks in the state.

IV. ANALYSIS

4.1 Branches

The number of branch expansion shows the development of a strong financial sector in the state and the availability of its services to masses without any exclusion. Number of branches has shown an increase but the increase is in a decreasing rate in the state irrespective of the banking group. The table 1.1 shows the number of branches in the state in each year and their incremental increase.

Table 4.1: Banking group wise number of branches

Year	Public Sector Banks	Incremental Increase	Private Sector Banks	Incremental Increase	Co-operative Banks	Incremental Increase	Total Banking Sector	Incremental Increase of the total
2011	3023	---	1550	---	186	---	4759	---
2012	3233	210	1678	128	877	691	5788	1029
2013	3490	257	1789	111	887	10	6166	378
2014	3772	282	1916	127	902	15	6590	424

2015	3997	225	1987	71	933	31	6917	327
2016	4143	146	2043	56	936	3	7122	205

Source: State Level Bankers Committee, Kerala(2011-2016)

The table 4.1 shows the number of branches established in the state in the rural, semi-urban and urban areas by the banking industry. Public sector bank branch expansion in the year 2011 was 3023 lakhs which increased to 4143 lakhs in 2016. In the case of private sector banks it is 1550 lakhs in 2011 which increased to 2043 n 2016. Co-operative bank recorded a tremendous increase from 186 lakhs branches in 2011 to 936 lakhs branches in 2016. But overall the branch expansion of the different bank group recorded an increase, looking into their incremental increase all showed an increase in a declining rate and hence in the incremental increase of the total banking industry

4.2 Organisation of deposits

The prime function of banking in itself is the mobilisation of savings from the public by introducing attractive schemes

Table 4.2: Banking group wise distribution of deposits

Year	Public Sector Banks	% share in the total	Private Sector Banks	% share in the total	Co-operative Banks	% Share in the total	Total Banking Sector	Incremental Increase of the total
2011	10986003	65.88	5170172	31.00	520545	3.12	16676720	-----
2012	13161272	58.31	6594419	29.22	2813601	12.47	22569292	5892572
2013	14939566	57.51	7975281	30.70	3063704	11.79	25978551	3409259
2014	17741245	55.46	10224241	31.96	4022886	12.58	31988372	6009821
2015	20434703	55.83	11554287	31.57	4614085	12.61	36603075	4614703
2016	22721129	53.93	13438187	31.89	5973427	14.18	42132742	5529667

Source: State Level Bankers Committee, Kerala (2011-2016)

The total deposits generated by the banking industry group wise in the state for the period 2011 to 2016 as at March is analysed in the table 1.2. The percentage share of each group to the total deposit generated is also highlighted. The deposit organized throughout has shown an increasing trend. Amount of deposit mobilized in the year 2011 was Rupees 16676720 lakhs which has increased to an amount of Rupees 42132742 lakhs in the year 2016. Looking into the percentage share, public sector banks are the major mobiliser of savings. The percentage of public sector was 65.8 percent in the year 2011 which decreased to 53.93 percent in the year 2016. The next highest percentage is contributed by private sector banks with 31.00 percent in the year 2011, decreased to 29.22 in the succeeding year but more or less showed stability and slightly increased to record a 31.89 percent in the year 2016. Whereas the share of the co-operative bank has shown an impressive increase from 3.12 percent to 14.18 percent in the year 2016.

4.3 Distribution of NR deposits

The key to growth engine for the state of Kerala is the remittances from other countries, especially gulf countries. Inflow of NRI deposits increased from Rupees 3768995 lakhs to Rupees 13560906 lakhs as at March 2016.

Table 4.3: Banking group wise distribution of NR deposits

Year	Public Sector Banks	% share in the total	Private Sector Banks	% share in the total	Co-operative Banks	% share in the total	Total Banking Sector	Incremental Increase of the total
2011	2644117	70.15	1124844	29.84	34	0.00	3768995	-----
2012	3193723	65.91	1651681	34.09	36	0.00	4845440	1076445
2013	4131163	62.41	2487814	37.59	54	0.00	6619031	1773591
2014	5431507	57.85	3956766	42.15	79	0.00	9388352	2769321
2015	6469805	59.03	4490522	40.97	68	0.00	10960395	1572043
2016	7717749	56.91	5843109	43.09	48	0.00	13560906	2600511

Source: State Level Bankers Committee, Kerala (2011-2016)

The bank group wise analysis shows that NRI prefer public sector banks over private sector banks for depositing their money irrespective of the fact that the percentage has shown a decreasing movement. The percentage of the public sector bank though started with the highest of 70.15 percent registered a down trend and was 62.41 percent in the year 2013 and further to 56.91 percent in the year 2016 (Rupees 7717749 lakhs). In spite of the decreasing move the share registered is a majority compared to the other banking group. Looking into the NR deposits contributed by the private sector banks, it has shown an increasing trend starting from 29.84 percent to reach a high of 43.09 percent (Rupees 5843109 lakhs). Contribution of the co-operative banks in the mobilization of NR deposit is negligible as it amounts to mere 48 lakhs in the year 2016.

In spite of these changes and fluctuations registered by the different banking group, there is an incremental increase in the deposit mobilization by the banking industry in the state as shown in the table 1.3 and the incremental increase recorded for the year 2014 is rupees 2769321 which slightly decreased in the succeeding year 2015 registering rupees 1572043 lakhs and again increasing to rupees 2600511 lakhs in the year 2016.

4.4 Distribution of advances

Banks are the major providers of loans and advances in different forms to businessmen and entrepreneurs in the growth process and thereby generate its own source of income. Credit being the lubricant of all business and trade related activities banks can be called as the nerve center of all trade activities, a sound banking system can ensure smooth functioning of all commerce and trade. Table 4.4 shows the bank group wise amount of lending along with the advances of the total lending by the banking industry in the state.

Table 4.4: Banking group wise distribution of advances

Year	Public Sector Banks	% share in the total	Private Sector Banks	% share in the total	Co-operative Banks	% share in the total	Total Banking Sector	Incremental Increase of the total
2011	8516841	67.12	3681345	29.01	491462	3.87	12689648	----
2012	10507889	60.88	4421416	25.62	2331292	13.51	17260597	4570949
2013	12264550	60.69	5244182	25.95	2699948	13.36	20208680	2948083
2014	13217135	59.82	5983884	27.08	2895423	13.10	22096442	1887762
2015	14837606	58.83	7033002	27.88	3351413	13.29	25222020	3125578
2016	15217096	56.53	8024666	29.81	3678731	13.67	26920133	1698113

Source: State Level Bankers Committee, Kerala(2011-2016)

Table 4.4 reveals the major lending done in the state by the banking group, its percentage share in the total and the incremental increase of the total banking industry. Analysing the same, the inference is that though the advances forwarded in terms of short term and medium term loans has been increasing, the incremental increase of the banking sector as a whole is declining. The incremental increase in the year 2012 was the highest at rupees 4570949 lakhs and decreased to rupees 169113 lakhs in 2016. The percentage share contributed by public sector decreased from the highest share of 67.12 percent in the year 2011 to a 56.53 percent in the year 2016. Private sector bank recorded more or less a stability varying within 25 percent to 29 percent. Co-operative bank share in the total banking sector in lending was stable at 13 percent.

4.5 Banking group wise CD ratio

Another indicator of performance of the banking sector is its credit-deposit ratio. Credit-deposit ratio is a commonly used measure for evaluating a bank's liquidity by dividing the bank's total credit by its total deposits. This number is expressed as a percentage.

Credit-Deposit Ratio=Total Advances/Total Deposits *100

But a low rate indicates banks are not making fuller utilization of the resources and that they are not earning as much as they could. A high ratio indicates a more reliance on deposits for lending and that banks might not have enough liquidity to cover any unforeseen fund requirements. Table 4.5 gives a clear sketch of the CD ratio of different banking groups from 2011 to 2016 as at March.

Table 4.5: Banking group wise CD ratio

Year	Public Sector Banks	Private Sector Banks	Co-operative Banks	Total Banking Sector
2011	77.52	71.2	94.41	76.09
2012	79.84	67.05	82.86	76.48
2013	82.09	65.76	88.13	77.79
2014	74.5	58.53	71.97	69.08
2015	72.61	60.87	72.63	68.91
2016	66.97	59.72	61.58	63.89

Source: State Level Bankers Committee, Kerala (2011-2016)

Table 4.5 shows the credit-deposit ratio of the public, private, co-operative and total banking sector in Kerala state. The lending ratio of the banking industry in the case of public sector banks varied between 75 to 80 percent except the lowest recorded in the year 2016 at 66.97 percent. Private sector banks too recorded a declining CD ratio to reach the lowest in the 2014 but showed sign of revival to record a 60.87 percent in 2015 but again to slightly low ratio of 59.72 in 2016. As major lenders in the state the co-operative bank with a lending ratio of 94.41 percent the highest of all the three registered in the year 2011 reached to its low rate of 63.89 percent in 2016

V. FINDINGS

The total banking industry as a whole in the state has shown progressive trend in terms of branch expansion, deposit mobilisation, foreign remittances, its lending and the credit – deposit ratio. But looking into the group wise analysis of the banking sector in particular the inference is that the public sector banks has shown an impressive trend in all these parameter next to it being the private sector banks. The incremental increase in the case of branch expansion has shown a decreasing trend. Public sector banks ranks first in the deposit mobilisation followed by the private sector and public sector banks. Foreign remittances mainly flow into the public sector and next to it people prefer the private sector banks. Though co-operative banks has registered its share in NR deposits , it has not opened its share in terms of the percentage share to the total banking industry. Main stream of the advance flow from the public sector banks and the next highest by the private sector. Co-operative banks in the state constitute only a negligible amount comparing the other two groups. As far as the CD ratio is concerned more or less all banking group exhibited a variation with the range of 60 percent to 80 percent.

VI. CONCLUSION

The part played by a well-functioning and a sound banking system lies not only in evaluating its growth in terms of the branch expansion, deposit mobilisation, lending, foreign remittances and a better credit deposit ratio or in terms of the services and products offered to the masses but also lies in the challenge faced by it in reaching the right masses for the right purpose and at the right time. Otherwise it will create a vacuum wherein we continue speaking about inclusion and exclusion strategies and policies for years and years.

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