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The CASA pillars of public sector banks are shrinking

By [Joel Rebello](#), ET Bureau | Updated: Jun 29, 2016, 04.56 AM IST

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MUMBAI: Current and savings account (CASA) deposits, once a key pillar of any public sector bank's business in India, have shrunk rapidly since the turn of the century as customers moved to technology-savvy private sector banks attracted by their service and convenience.

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CASA deposits are crucial to a bank's health because they are the cheapest source of funds for banks. Banks with a high CASA ratio are considered stronger. Public sector banks have traditionally been strong on CASA mainly because of their vast network as people considered it safe to keep their cash in a government-backed lender.

Data compiled by ET shows that CASA ratio of public sector banks is on a downward spiral. Among the big players, only State Bank of India (SBI) has been able to maintain its CASA ratio since the turn of the century.

Other large banks like Bank of Baroda, Punjab National Bank (PNB) and Canara Bank have all seen CASA ratios drop since March 2000. Against this, private sector rivals like ICICI Bank, HDFC Bank and Axis Bank have gone from strength to strength to enhance their share of CASA in the same period.

Bank of Baroda's CASA has fallen to 26% of its deposits in March 2016 from 32% in March 2000, while PNB has seen CASA drop from 45% to 37%. Among the large public sector lenders Canara's CASA has dropped the sharpest to 27% in March 2016 from 38% in March 2000.

The picture for large private sector banks is the exact opposite. ICICI's CASA ratio has more than doubled to 45% in March 2016 from 21% in March 2000, while Axis Bank's CASA jumped to 47% of total deposits from 17%. HDFC has been successful in retaining its CASA ratio nearly steady at 43% versus 46% in March 2000.

Analysts said the drop in public sector bank CASA shows that customers have chosen convenience and quality service especially as private banks have been known to be more technologically savvy.

"The traditional thinking that only public sector banks are safe has been busted. It is no secret that private sector banks have innovated quickly, enhanced quality of service and provided customers a choice of transactions. All these factors are being reflected in the CASA," said Piyush Singh, managing director financial services at Accenture. "Public sector banks still view digital as an alternative channel. For private sector it's mainstream."

Analysts said public sector banks have not been able to keep in touch with the rise in digital banking channels and that cost them dear in terms of CASA. To survive and remain relevant they need to be more nimble.

"Not only CASA, wherever private lenders have wanted to, they have grown, be in retail lending, payments or even corporate. As things stand now, public sector banks face capital issues and are struggling to stand on their feet. In the future, some of these banks may be merged, but as we speak now, this trend of them losing market share will not stop," said Puneet Gulati, analyst at JM Financial Securities.

The retreat is not only on the retail front. Public sector banks have been badly burnt due to their exposure to companies. The contrast on bad loans between public and private sector banks is stark.

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