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Analysis of Liquidity position through Cash Deposit Ratio

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Abstract

Accounting ratios are useful indicators to analyse company's financial performance and financial situation. All the ratios of the business sectors can be calculated from information provided in the financial statements. Financial ratios also used to analyze financial position within the company, with in the year, between the years and between the companies. In some cases, ratio analysis can predict future bankruptcy and performance. Here, Cash Deposit Ratios of HSBC are compared to know their Liquidity Position. This study aims at identifying and analyzing liquidity position through Cash Deposit Ratio of Hong Kong and Shanghai Banking Corporation (HSBC).

Keywords: Financial Performance, Financial position, Liquidity position,

Introduction

Bank is a financial institution which collects surplus funds from the general public and lending them. Cash deposit ratio plays a crucial role in banking operations. Cash is a most liquid asset of a bank. Cash deposit ratio is with reference to a bank's the ratio of cash balance held against its deposits. The banks in general, do not want to hold more than necessary cash reserves because in that case they lose their interest gap ie profit. Similarly, the bank must necessary to maintain cash balance in order to maintain day to day expenditure. Cash deposit ratio helps the financial institutions in their future meet of finance and their payment obligations. It is calculated by dividing the cash by the deposit:

$$CDR = Cash / Deposit$$

The cash deposit ratio of a bank is determined by its size and branch network and also depends upon the banking habits of its clients. A big bank is likely to have proportionately larger number of customers too.

Hongkong and Shanghai Banking Corporation (HSBC)

Hongkong and Shanghai Banking Corporation is one of the largest banking and financial services organizations in the world which is named after its founding member. Its head quarter is in London. HSBC was started from one small idea of setting up a local bank serving local needs.

Methodology

The present study follows an explanatory design. Secondary data are collected and it contributed major inputs to the study. The necessary data are collected from the financial statement of HSBC which is available in the internet. To bring clarity of the study researcher used following statistical tools such as ratios, means and standard deviation to analyze and interpret the data:

Cash Deposit Ratio (CDR)

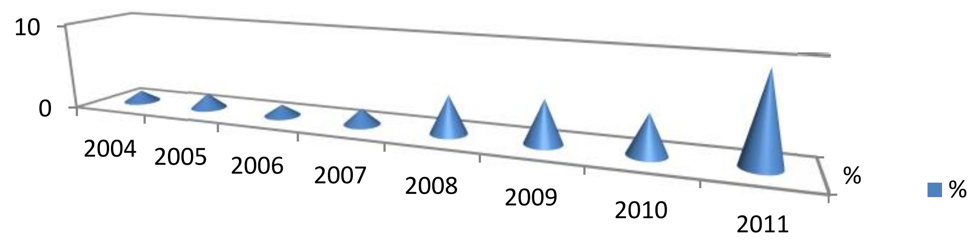
Cash deposit ratio (CDR) is an important indicator which used to find ratio between cash and deposit. CDR is calculated and it can be compared for eight years from 2003-04 to 2010-11. Cash deposit ratio (CDR) is calculated by dividing cash by the deposits. Initially in 2003-04, CDR shows very less and it is gradually increased by 0.415% in 2004-05. In this year both cash and deposit increased and there is strong growth in the deposit account balances and raised more new savings account significantly. The deposit balances increased with the minimum balance of account for the new account holders. The cash has also increased and there has been strong growth of balance sheet. And also in 2005 showed an increase in profit which might be some of the reasons for the increase in cash during the year. Due to the significant increase in cash and the increase in deposits, the ratio has also increased. When comparing 2005-06 with 2004-05, there is a decline stage of cash deposit ratio because the lending rate of the bank is increase. There was growth in customer lending as well, expenses such as operating expenses, loan impairment charges, etc also increased. Therefore, the availability of cash is increased in account while comparing previous year but the cash at bank available for working capital is decreased. Thus, in 2005-06, there has been a fall in cash deposit ratio due to the withdrawal of large quantity of cash by the account holders. When the cash deposit ratio (CDR) of 2006-07 is compared with that of 2007-08 there is a sudden increase level of CDR. 2.435 percentage is a difference in between 2006-07 and 2007-08. The cash has increased drastically because the deposits have increased highly and increases in cash might be due to the consolidation of the account holders those who are not maintained minimum balance of account and the bank collected bank service charges also.

Table 1- Cash Deposit Ratio

	YEAR	RATIO	PERCNTAGE
1.	2003-04	0.01280	1.280
2.	2004-05	0.01695	1.695
3.	2005-06	0.01278	1.278
4.	2006-07	0.01772	1.772
5.	2007-08	0.04207	4.207
6.	2008-09	0.04724	4.724
7.	2009-10	0.04288	4.288
8.	2010-11	0.09504	9.504

The growth in personal savings and interest bearing current accounts were boosted higher commercial deposits and increased money market deposits and this led to the growth of customer deposits. Therefore, as a result, there was a rise in the cash deposit ratio (CDR) and the above mentioned can be said as some of the reasons behind the rise. In 2008-09, CDR clearly shows in the above table about the significant increases of cash balance due to the same reasons

Figure 1-CASH DEPOSIT RATIO



as the researcher interpreted in 2007-08. When comparing the rate of percent increase in 2006-07 and 2007-08 [2.435 %] to 2008-09 only 0.517 % CDR increased. This was happened due to reduction in the maintenance of operating expenditure and slightly increase customer deposits also the bank gained from sale of some of its assets and the bank increased other incomes such as interest on overdrafts, Loan, bank charges etc.

In 2009-10, the ratio fell and almost came back to what it was in 2008. Here, there was a fall in the cash, but the deposits continued to rise. In this year, revenues such as income statement revenues fell and there also was a fall in the underlying profits of the subsidiary undertakings and this was largely due to lower levels of fallen in the Global Banking scenario leads to reduce the CDR percentage. In the year 2010-11 there was a highest rise in the cash deposit ratio (CDR) compared to the previous year 2009-10. 5.216 % CDR increased from 2009-10 to 2010-11. This the highest rate of variation among all the above mentioned years in the table. The main reasons behind this can be the cash withdrawal of the customer is decreased and the amount deposited by the account holders are increased while comparing the previous years. There was a fall in the total operating expenses, loan impairment charges, etc. and the bank also had gain on disposal of some collateral security of the customers those pledged and not cleared after the long period of time. These in turn might have increased the availability of cash to such a large extent. Despite fierce competition for customer deposits, the group continued to increase its deposits in a constant way mainly due to the bank's strong deposit base. Thus, we can conclude the main reasons as listed above might have led to such a significant increase in the cash deposit ratio (CDR) during the year 2010-11.Thus, the cash deposit ratio of HSBC was very less initially in 2003-04, but it continued to rise in the following years even though there was a sudden increases of CDR in 2007-07 and 2010-11. Especially in 2010-11 the bank experienced a significant rise in the ratio of Cash Deposit.

Conclusion

In this study, Cash Deposit Ratios of the liquidity are considered as a vital part in determining the liquidity of the HSBC banks for 8years starting from 2003-04 to 2010-11. From the study, it can be concluded that HSBC bank's Cash deposit ratio had increased continuously and very slight changes of decrease level in the above mentioned years. The down trend level of CDR among the years are moderate and increased positive trend is much satisfactory among the years. The overall performance of the CDR in the Liquidity position is highly significant.

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