CHAPTER VIII

MANAGEMENT OF CASH IN TILLS

Transactions in banks take place in three forms - first through cash, secondly through clearing and thirdly through transfers. Transactions through both clearing and transfers take place in the form of Book entries and those through cash are effected by exchange (by banks) of actual money for instruments. In developed countries, where banking habits are well developed, actual exchange of money against instruments is comparatively far less. But, in developing countries, due to lack of banking habits, the number of transactions effected through cash is comparatively more. Thus, the stage of development of banking and banking habits among the public decide the quantum of cash kept by banks, in their tills, for their day to day transactions. Though this is so for the Banking System as a whole, yet the need to keep a particular proportion of total sources in the form of cash varies from bank to bank depending upon several factors as under:

FACTORS DETERMINING THE QUANTUM OF CASH TO BE KEPT IN TILLS:

The primary factor is the number of branches that individual banks have and the total volume of transactions made by them during a given period of time. Even though the total volume of transactions conducted by a bank may be quite heavy, yet, if it has only a limited number of branches, then it would be sufficient if it keeps only a little amount of cash on hand. Thus, for instance, foreign banks operating in India have only a very few number of branches and that too mostly in the Metropolitan Cities of the Country and hence though they transact comparatively a higher volume of business, yet the money required to be kept by them in their tills is quite restricted as they have only a limited number of branches in the Country. Whereas, other banks with more or less the same quantum of business but with
a larger number of branches in the Country need to have more cash on hand. Accordingly, the proportion of cash on hand, in the case of foreign banks operating in India, to their total funds was lower, in 1979, at only 0.74% compared with as much as 1.44% for the State Bank of India, an average of 2.01% for the 14 Nationalised Banks, 2.35% for the Regional Rural Banks and 3.01% for other commercial banks.

The next important factor is the availability of facilities for branches of banks to remit the excess cash available with them. This, in turn, depends upon the number of Currency Chests that banks are able to/permit by the Reserve Bank of India to open and operate on its behalf and the nearness to them of State Bank of India which might accept, on behalf of the Reserve Bank of India, this excess cash etc. Hence, the ability of banks to mobilise the excess cash with their branches through their Currency Chests or their pool branches decides the quantum of cash to be maintained by them. Thus, the facilities available to branches to remit their excess cash or draw cash as and when it is urgently required by them also decide the quantum of cash to be kept by them in their tills.

The third important factor is the business mix of banks. If a sizeable portion of deposits and advances of a bank is for long term, the need for it to keep cash on hand would be limited provided, of course, it has only a limited number of branches and also banking habits of the people in the Country are fairly well-developed. Whereas, if the number of transaction accounts with the bank is quite high and the total volume of transactions conducted by it during a given period of time is also fairly high, it would need to maintain a relatively bigger quantum of cash on hand.
Cash in tills is one of the components of SLR, the other two being balances with other banks and investments in Government Securities. Hence, it is possible for banks to reduce the proportion of cash in tills (which does not get any return to the banks) to the total funds deployed under SLR and correspondingly step up the investments portfolio so that the total yield on funds deployed under the SLR would be at the maximum level. Banks should, therefore, ensure, in their own interests, that cash in tills is kept always at the lowest level possible.

Banks can ensure maintenance of cash balances at the lowest level possible by adopting several measures as set out below:

a) Maintenance, on behalf of the Reserve Bank of India, of Currency Chests at various vital centres;
b) Entering into TT agreements with other banks at Centres which are vulnerable to huge/heavy cash transactions;
c) Establishing Collection Centres at various places which can collect, on a periodical basis (say twice or thrice every week), excess cash from all branches covered by them;
d) Inculcation, on an increasing scale, of cheque habit amongst customers and
e) Fixation of ceiling limits for maintenance of cash at branches on scientific basis.

There is no one ideal or most advantageous proportion of cash to deposits for all banks. Indian Banking is now in a transition stage and fixation of such a limit would, therefore, be rather impossible. In fact, the ideal proportion would vary from bank to bank depending upon the systems and procedures obtaining in individual banks, the facilities available with them for transfer of funds from one branch to
another and their geographical coverage. As mentioned earlier, higher the number of branches of a bank, higher would be this proportion. However, there is ample scope for banks to reduce their ratio of cash held to total deposits:

The following Table sets out the ratio of cash held by all Scheduled Commercial Banks to their total deposits, as on the last Friday of various years, during the decade ended 1980:

**TABLE 29 - CASH HOLDINGS OF ALL SCHEDULED COMMERCIAL BANKS**

(Amounts in crores of Rs.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Deposits</th>
<th>Average Cash on hand</th>
<th>Proportion of cash held to total deposits (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>5656.78</td>
<td>152.15</td>
<td>2.69</td>
</tr>
<tr>
<td>1972</td>
<td>8098.49</td>
<td>195.59</td>
<td>2.42</td>
</tr>
<tr>
<td>1974</td>
<td>11999.51</td>
<td>266.87</td>
<td>2.30</td>
</tr>
<tr>
<td>1976</td>
<td>15328.30</td>
<td>325.33</td>
<td>2.12</td>
</tr>
<tr>
<td>1977</td>
<td>18860.47</td>
<td>402.46</td>
<td>2.12</td>
</tr>
<tr>
<td>1978</td>
<td>23098.14</td>
<td>507.12</td>
<td>2.19</td>
</tr>
<tr>
<td>1979</td>
<td>28226.13</td>
<td>592.07</td>
<td>2.19</td>
</tr>
<tr>
<td>1980</td>
<td>33105.06</td>
<td>673.16</td>
<td>2.03</td>
</tr>
</tbody>
</table>

Statistical Supplement

**SOURCE:** Weekly Bulletin published by the Reserve Bank of India.

It may be observed from the above Table that banks, on an average, held during the Seventies, as much as 2% of their average deposits in the form of cash in tills. However, this ratio can be brought down to a level of 1%; as brought out by a study of selected sample of about 50 branches of the Case Bank conducted for this purpose.
IDEAL LEVEL OF CASH HOLDING - CASE STUDY

Objective:

The objective of the sample Study was to find out the ideal level of cash holding at the macro level for individual banks.

Methodology:

A representative sample of 50 branches of the Case Bank was selected and data pertaining to their daily receipts and payments and the cash balances maintained by them on all the 26 working days in a month in 1981 were collected. The data were processed, the number of days on which the total of receipts was higher than the total of payments, vice versa were identified and the percentage of cash holding to total deposits was computed in regard to these branches. The total average of deposits and advances of these branches put together amounted to Rs.177.65 crores and Rs.154.10 crores respectively for the selected month. The average cash balances relating to these branches put together was Rs.2.39 crores.

Results of the Study:

The Study revealed that, during the month, in the case of 29 branches, withdrawals (payments less receipts) were more than remittances and the net maximum withdrawal on a single day was Rs.2.33 crores and minimum withdrawal (on a single day) was Rs.0.12 crore.

The maximum withdrawal of Rs.2.33 crores constituted 1.31% of the total deposits and advances of these 29 branches put together. The quantum of cash to be kept on hand, on the basis of either the maximum or the minimum levels of net withdrawal on a peak day, should be decided on the basis of a via media between the two extremes.
The median of net withdrawals during the 26 days of the month (when there were no withdrawals) worked out to Rs.1.02 crores. This accounted for 0.57% of the average deposits of these branches. Hence, from the points of view of risk and cost, the ideal ratio of cash holding to deposits at these 29 representative branches may be taken as 0.57%. As regards the remaining 21 branches which recorded net receipts, it was not possible to shift the entire cash to Currency Chest/remit it to the local State Bank of India. In view of these operational problems involved, it would be very difficult to maintain, in actual practice, cash at the ideal level in these branches. Hence, we have to find out the extent to which branches may hold cash due to net receipts recorded by them.

For this purpose, the median between the maximum surplus and minimum surplus in regard to the remaining other 21 branches which recorded net surplus was found out. The maximum surplus was Rs.1.65 crores and the minimum was Rs.0.23 crores on these days. The median between these surplus recorded by these 21 branches worked out to Rs.0.72 crore which accounted for 0.41% of the average of deposits and advances of these branches put together.

By adding the median of cash holdings relating to these two types of branches which recorded net surplus and which recorded net deficit, which stood at Rs.1.02 crores and Rs.0.72 crore respectively totalling to Rs.1.74 crores, we may arrive at the ideal proportion of cash holding to total deposits, which accounted for 0.98% of the total deposits of these branches put together at Rs.177.63 crores.

However, this exercise would help us to assess the macro level holding of optimum level of cash at branches. Under normal circumstances, this level may
be would be equal to even 0.50% of the total deposits, in regard to the branches where deposits and advances are well combined. Similarly, primarily deposit-oriented branches, which always record wide fluctuations between receipts and payments, may find it necessary to always keep as much as 1.50% of their deposits in the form of cash in tills.

Hence, the macro level optimum limit of cash holding of all branches of the Bank put together (which would be less risky and more profitable for the Bank) would be 0.98%, which can be rounded off to 1%, of the total deposits of the Bank.

The optimum limit of cash holding would vary between individual branches of a bank depending upon several factors such as composition of deposits, advances, frequency of cash transactions, frequency of excess/short experienced in regard to cash, facilities available for transfer of excess cash, methodology adopted in the Bank for this purpose etc. Nevertheless, the ideal level of cash holdings for banks, at the macro level, as of now, would be 1% of their total deposits. However, with further improvements in the systems and procedures and with improvements, in future, in the facilities available with banks for quick transfer of money, this level would get reduced still further.