

IMPACT OF DEMONETIZATION ON BANKING SERVICES

“AMONG ALL FORMS OF MISTAKE, PROPHECY IS THE MOST GRATUITOUS.”

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Abstract

Demonetization is the process of stripping a currency unit of its status as legal tender. The opposite of remonetisation in which a form of payment is restored as legal tender. Due to demonetization it affects the people to buy necessary products for everyday essential. Earlier only people who are having through knowledge about computers and electronic appliances used to perform online mode. At the present the government is encouraging and sometimes making compulsion to perform online financial transactions. The elimination of corruption and eradication due to this demonetization the consumer attitudes towards the usefulness and willingness to use Internet e banking was identified and measured. For the consumer shifting from cash transform to cashless transactions such as Paytm, debit cards and Credit Cards. The main objective of the present study is to find out the impact of Demonetization on banking services, study is based on secondary data. The result of the study shows that there is positive and negative impact of demonetization on banking services.

Keywords: Demonetization, E-Banking, Internet banking.

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Demonetization

Demonetization is a radical monetary step in which currency unit's status as a legal tender is declared invalid. This is usually done whenever there is an alteration of national currency replacing the previous unit with a new one. Demonetization means that the Reserve Bank of India has withdrawn the old Rs 500 and Rs 1000 notes as an official mode of payment.

Reasons for Demonetization in India

The main reasons for demonetization are:

1. To tackle black money in the economy.
2. To lower the cash circulation in the country this "is directly related to corruption in our country,
3. To eliminate fake currency and dodgy funds which have been used by terror groups to fund terrorism

Banking

Banking can be defined as the business activity of accepting and safeguarding money owned by other individuals and entities, and then lending out this money in order to earn a profit. However, with the passage of time, the activities covered by banking business have widened and now various other services are also offered by banks. The banking services these days include issuance of debit and credit cards, providing safe custody of valuable items, lockers, ATM services and online transfer of funds across the country / world. It is easily stated that banking plays a silent, yet crucial part in our day-to-day lives. The banks perform financial intermediation by pooling savings and transferring them into investments through maturity and risk transformations, thereby holding the economy's growth engine revving.

Literature review

Gupta, Dinesh Kumar (2016) in his article expressed that demonetisation step of 2016 was somehow different from to earlier steps because of its sudden declaration taking aback the general public, bankers who were to deal mainly with the situation as it was feared that if the black market caught any whisper of what the government was planning, they would find ways to get rid of their illicit cash, and the initiative would flop on one of its initially-stated goals. The

step worked as a trigger point for the general public to adopt the alternate banking delivery channels, as momentarily, it was a no cash situation. The government has come out with a number of incentives on cashless transactions like waiver of surcharge on transactions in cashless mode.

Nithin and Sharmila (2016) in his study on demonetization and its impact on Indian Economy, find out that demonetization has a short term negative impact on different sectors of the economy and such impacts are solved when the new currency notes are widely circulated in the economy. They also suggested that the government should clear all the problems created due to demonetization and help the economy to work smoothly.

Nikita Gajjar (2016) conducted a study on Black Money in India: Present Status and Future Challenges and Demonetization. In her research study she described the framework, policy options and strategies that Indian Government should adapt to tackle with this issue and the future challenges to be faced by the Government.

Manpreet Kaur (2017) carried out a research on demonetization and the impact on Cashless Payment System. He finds out that the cashless system in the economy has many fruitful benefits less time-consuming, less cost, paperless transaction, and he anticipated that the future transaction system in all the sectors is a cashless transaction system.

Sweta Singhal (2017) conducted a research on Demonetization and E Banking in India. The main objective of the study is to check the awareness level of people of rural areas in India about e-banking facilities and how much it has increased after demonetization. A sample size of 100 was used with ANNOVA test to show that rural people differ much with urban people in their awareness level as well as the usage level of e-banking. It was found that urban male youth have higher awareness and usage of e-banking.

Objective of the Study

1. To highlight on the Demonetization in India and after effects of it.
2. To find out positive and negative results of post demonetization on Bank operations.

Methodology of the Study

The study is based on Secondary Sources of data. It includes available published literatures such as books, journals, newspapers and relevant government websites. The study tries to look at the extent of demonetization influence on normal banking operations

Demonetization effect on electronic payment

The Indian government wants to go cashless transaction. Due to that online transaction where done through the use of debit and credit cards. There are many options to cashless transaction available in India they are,

1. Plastic money
2. Aadhaar card
3. E-wallet
4. UPI

1. Plastic money

It includes debit and credit cards that are used at the ATM for cash withdrawal and POS machines are used at the time of shopping.

2. Aadhaar card

It leads to make payment through use Aadhaar number. It allows a person to pay using his account if it is linked with his bank account when you have an account in bank you can make payment through use of your fingerprints.

3.E-Wallet

E wallet paying major role and become a popular nowadays after demonetization E-Wallet has been used large scale. E-Wallet allows users to make payment through use of mobile number (or) QR code.

4.UPI (unified payment interface)

UPI enables all bank account holders to send and receive money from their smart phones with the need to enter bank account information.

. Positive Impact on Banking Services

The biggest beneficiary of this policy will be the banking sector. This is mainly due to the queues of people depositing cash in the banks – which will result in substantial liquidity with the banks. As the deposits with the banks will increase, so will increase the CASA, which will increase the Net Interest Income and the Net earnings of the banks. However, this will not be abnormally high since the RBI has increased the CRR in the short term to mop up some of this liquidity.

This way the banks get funds at no or very low cost (interest). Banks do not pay interest on the current account deposits and pays a very low % of interest on savings account deposits. Hence, it is a good measure to get deposits at no or very low cost.

As the banks get a lot of liquidity in their hands, they are expected to enhance the borrowing cycle by lending the money at a lower rate of interest. Hence, the interest rate on borrowing will lower down.

Banks have witnessed an unprecedented surge in deposits post demonetisation. Net increase in deposits for banks between 28th October and 23rd December was INR5.23 TN which was almost 2X of deposits received during previous six months of the financial year. As a result, YoY deposit growth had spiked to 14.5%, in mid-Dec'16, vs. average ~10% YoY growth before demonetisation – almost 50% increase in the growth rate.

Deposits in no-frills accounts (Jan-Dhan accounts) have increased by 56% post demonetisation from INR456 TN to INR710 TN with average balance per account increasing from INR2,330 to INR3,570. However, the demonetisation move did not significantly attract previously unbanked customers to open new accounts (only seven million new no-frills accounts opened on a base of ~300 million no-frills accounts). The implication of the action has been that it may lead to a more 'active' customer base for banks in the future.

There has been a stark difference in the performance of banks in garnering deposits during the demonetisation drive. Banks that had a larger physical footprint (branch network, ATMs), e.g. State Bank of India, HDFC Bank, Punjab National Bank, gained a disproportionate share of deposits compared to others and they now have an advantage in their funding profile. There have been notable performances from the likes of IndusInd Bank, IDBI Bank and Kotak Bank.

Negative Impact on Banking Services

NBFCs and microfinance institutions (MFIs) are under severe stress as their collection cycles (mostly in cash) have gone awry post November 8. Most NBFCs and MFIs have announced ‘collection holidays’ till such time there’s sufficient money in the system.

The government’s demonetization drive may puncture the earnings of most banks this quarter. With most staffers handling the Rs 500 and Rs 1000 note deposits, exchange and withdrawals, “revenue-yielding” operations such as vending loans and cross-selling investment products have taken a backseat in most banks.

The earnings of banks may take a hit in the third and fourth quarter. We may not see loan book growth as most banks are busy facilitating the demonetization process. They’re not aggressively selling a lot of credit products now. That apart, the SME and real estate sectors, to which most banks lend a significant part of their book – are in a state of major flux.

Excess Liquidity in Banks

Demonetisation has led to a surge in deposits for banks simultaneously reducing their loan books. Between 28th October to 23rd December 2016, banks saw net deposit inflows of INR5.3 TN whilst outstanding loans decreased by INR640 BN. This led to various banks cutting their deposits rates in the range of 25-100bps (with SBI slashing bulk deposit rates by up to 1.9%) followed by aggressive lending rate cuts (90bps cut in MCLR by SBI)

Despite the lower funding costs due to the excess liquidity and extent of remonetisation, the credit demand remains the dominant driver of the NIMs of the banking sector and will continue to drive profitability.

Slower Credit Demand

Historically, there has been a strong correlation between GDP growth and credit growth in India with credit growth to nominal GDP growth ratio (multiplier) being at ~1x. The multiplier generally expands during the high GDP periods but contracts during low GDP growth period. Hence, the multiplier which had increased to 2.2x during high GDP phase of FY05- 07 has come

down to ~1x during the low GDP growth period of FY14-16 due to weak private capex. With GDP growth expected to remain weak we expect loan book of Indian banks to grow at ~7% CAGR between FY16-18.

Conclusion

Demonetization is a tool used by central government to fight against corruption and black money. In the same path, it influenced and brought changes in all the corner of the economy. Banks are major institutions affected by demonetization. Banned denominations were ploughed back and allowed the citizens to exchange with the banks. While exchanging, it disturbed temporarily and influenced its regular operations. Though it affected badly to major extent of bank operations, it helped the economy to find growth and development of the country through financial institutions like Banks.

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