

A Study on Impact of Demonetization Over Banking Sector - With Reference to Banks in Raipur City

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Abstract : Demonetization refers to Withdrawal of a particular form of currency from circulation. On eve of 8th November 2016, the government announced the demonetization of Rs.500 and Rs.1000 notes (almost 86% of the currency) which left everyone shocked. As a result plenty of citizens in the country has shifted from hard cash to plastic money (Debit/credit cards). The study will enable us to understand the effects of demonetization on banking sector. Further for the study aspect I had chosen the structured questioner, which was filled up by bank employees. Total number of respondents used for the study is 50.

Keywords: Demonetization, Black money, ATM, Credit card, Debit card, Internet Banking, Banking Services.

I. INTRODUCTION

Demonetization is the act of removing the current currency from the economy and replacing it with the new one. India has demonetized before: First time on 12th Jan 1946 (Saturday), second time on 16th Jan 1978 (Monday), Third time on 8th November 2016 (Tuesday).

In 2016, the Indian government decided to demonetize the 500- and 1000- rupee notes, the two biggest denominations in its currency system; these notes accounted for 86% of the country's circulating cash. With little warning, India's Prime Minister Narendra Modi announced to the citizenry on Nov. 8 that those notes were worthless, effective immediately – and they had until the end of the year to deposit or exchange them for newly introduced 2000 rupee and 500 rupee bills. Surgical Strike on Black Money called 'Demonetization' brought enormous changes in all the sectors of the country. Banks are not exceptional from the influence of Demonetization and it made vibrations in the operations as well as products and services of Banks. It created greater demand to digital banking services where cashless transactions are prioritized. It made greater influence on Management of liquidity and its demand raised by customers in exchanging of their banned currency notes while minimizing risk and maximizing quality of service. At the same time meeting the guidance of Reserve Bank of India was challenging. Demonetization has disturbed the bank operations and made the employees to work under unconditional stress in

extended working hours of a day. Most of the banks were not able to discharge other banking services while exchanging the banned currency notes. Hence, the present study is made to figure out the influence of demonetization

on banking sector. It showcases post demonetization effect on banks and its operations.

II. REVIEW OF LITERATURE

Mr Brijesh Singh and Dr. N. Babitha Thimmaiah (January 2017) in their research paper studied the effect of demonetization in terms of "Won or lost". By using the secondary data method i.e. articles, they had conducted their study. In the study report they had tried to explain the concept of cashless economy by taking the reference of Woodford (2003). It is not all about how much money you are having in your wallet, you can pay by any of the bank card or banking transfer. In the research paper they had shown the effect of demonetization in the areas like, cash rush, stock market, transportation, agriculture, banking, business, income tax, railways etc. There are no exact proofs of exact black money holding in cash but studies show that around 8% of black money is held in cash. According to the Centre for Monitoring the Indian Economy (CMIE), the transaction cost of demonetization until 30th December, 2016 is estimated around Rs. 1.28 lakh crore. As per R. Gandhi, Deputy Governor of RBI, speaking on 7th December 2016, Rs. 11.5 lakh crore has been already deposited at bank out of total 14.5 lakh crore which means still 3 lakh crore are unidentified.

Sweta Singhal (2017) carried out research on Demonetization and E Banking in India. It was a case study 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 usage level of e-banking. It was found that urban male youth have higher awareness and usage of e-banking. She

felt that the study shall also helpful for banks to improve their e-banking facilities.

Chabi Gupta (December 2016) had studied about the payment banks and demonetization. To explain her research point, she had firstly explained about the Indian banking sector. Payment banks are generally niche banking set up by RBI , payment banks provides small saving accounts and payment services mainly for low income household, small businesses etc. Then she had explained the overall impact of demonetization move. According to the Reserve Bank Of India (RBI) figures, as of March 2016 currencies in circulation amounted to Rs.16,415 billion of this 500 notes were of around 47.8% in value and 1000 were of 38.6% in value. Jointly they had 86% value in the economy. Many banks like HDFC, ICICI and AXIS are exploring to launch the contact less debit and credit card. It will allow the customers to use card without swipe.

Abhani Dhara K (2017) carried out this research to study the impact of the demonetization over the banking sector. The study covers the banking sectors of specially veraval city. For the study he had selected total 13 banks of veraval city. For further study he had chosen the structured questioner, which was filled up by bank employees. By analysing the data collected almost 55% employees agreed with the view of positive impact of demonetization. Highly affected accounts were saving a/c and current account. Almost 51% employees had opinion that customers are moving towards online banking. 52% employees said black money which is in form of cash has been curbed by government. 69% employees were positive about customer behaviour on keeping money at bank. By seeing all areas mentioned above he concluded that demonetization of 2016 was more effective in comparison to previous two demonetization, this one is successful.

Vedashree Mali (2016), on Demonetization: A step towards modified India: Demonetization though it has created some positive and some negative impacts on different sectors but in long run it definitely will have positive impact in controlling black money and fake money.

OBJECTIVES OF STUDY

To determine:

1. To study the influence of demonetization on Banks operations.
2. To find out positive and negative results of post demonetization on Bank operations
3. To check the awareness of online banking among consumers

III. RESEARCH METHODOLOGY

This study based upon the both primary and secondary sources of data, responses collected with the help of the

modular questionnaire from the employees of various banks of Raipur area and the required secondary data were sourced from various reports, books, periodicals, journals and websites. This paper is empirical in nature and is regarding post effects of demonetization. The study tries to look at the extent of demonetization influence on normal banking operations.

RESEARCH DESIGN:

Research design states the overall strategy adopted by the researcher where by overall components of the study are set out in the logical way. That effectively presents the problem of the study moreover it constitute the collection, measurement and analysis of the data in the systematic way. For the study of impact of demonetization I had used descriptive research method. Motive behind choosing this tool is that this method is useful in describing the data that analyzed through study. Moreover descriptive study can provide you the overall knowledge about the specific sector in an analytical way.

SAMPLE DESIGN:

If researcher is going through the total population for the research then it may take the huge amount of time. So it is convenient to take the sample from the population. Sampling is the tool of selecting the sample from population. Research done over here is by using the Convenient Sampling Method. For the research purpose I had focused over Raipur city as the area of the sampling.

DATA COLLECTION:

Data collection is the most important part of any of the research. Generally primary as well as secondary ways are available for data collection. For this study primary data collection has been used. For that Questionnaire method has been used by me. Wherein I personally approached the respondents with the view to gather the information from them.

SAMPLING TECHNIQUE:

Initially, a rough draft was prepared keeping in mind the objective of the research. A pilot study was done to know the accuracy of the Questionnaire. The final Questionnaire was arrived only after certain important changes were done. Thus, the research sampling came out to be convenient sampling.

SAMPLING UNIT:

The respondents who were asked to fill out questionnaires are the sampling units. The respondents who were asked to fill out questionnaires are the sampling units. These comprise of employees of the 12 selected banks of Raipur.

SAMPLE SIZE :

The total sample size of the study is 50.

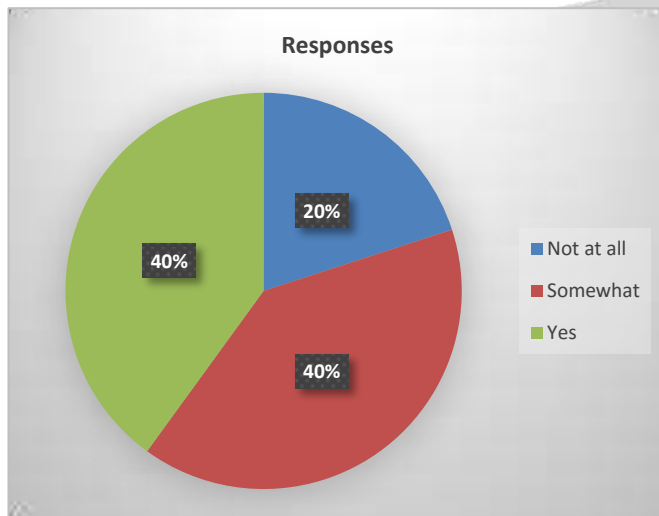
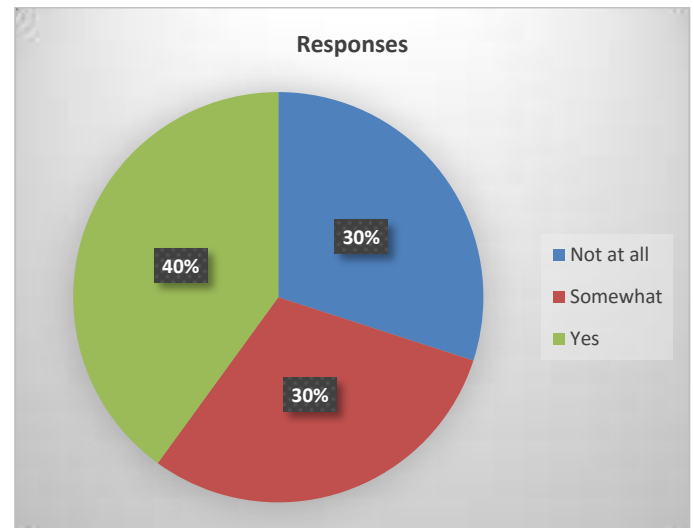
HYPOTHESIS

- H0 - There is Positive impact of demonetization on the banking sector.
- H1 - There is Negative impact of demonetization on the banking sector.

IV. DATA ANALYSIS AND INTERPRETATION

1. Do you think that Demonetization helped reduce black money, corruption and terrorism in India?

Option	Responses	In %
Not at all	10	20
Somewhat	20	40
Yes	20	40



Through the responses from this question we can interpret that the responses for two options i.e. somewhat and yes have equal percentage of answers which means that people believe that Demonetization has helped reduce black money, corruption and terrorism to some extent. This move is helpful because it has helped reduce black money, corruption and terror funding in India to some extent. It also helped in making India a digital economy by reducing the usage of cash. Usage of plastic cards has also increased to some extent. This move has not been more helpful because the Black money holders, tax evaders and corrupt officials may not necessarily keep their money in bags at home as it was the old concept now they invest this money in the market. Hence it can be said that this move by the government has not produced desired results and has cause inconvenience to common man.

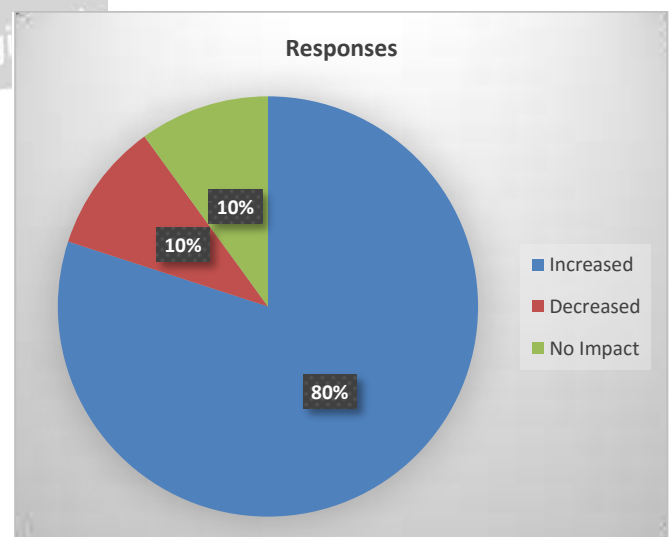
2. Did you mind the inconvenience faced through Demonetization?

Option	Responses	In %
Not at all	15	30
Somewhat	15	30
Yes	20	40

Through the responses from this question we can interpret that the people do believe that demonetization has caused inconvenience to them. People were forced to stand in long queues for hours and even days. Out of all the people affected through demonetization bank employees are the most stressed due to the increase in their workload, if it could be measured we could see alarming level of stress in the bank employees all over India because they have to serve a relentless horde of panicked customers, bank employees are facing what is probably the most challenging period of crisis in their careers. Due to demonetization the bank employees were made to work throughout the day, missing their lunch breaks. They even worked throughout the nights. They were stressed a lot and some of them even suffered serious health problems.

3. What is the impact of Demonetization on the use of online banking?

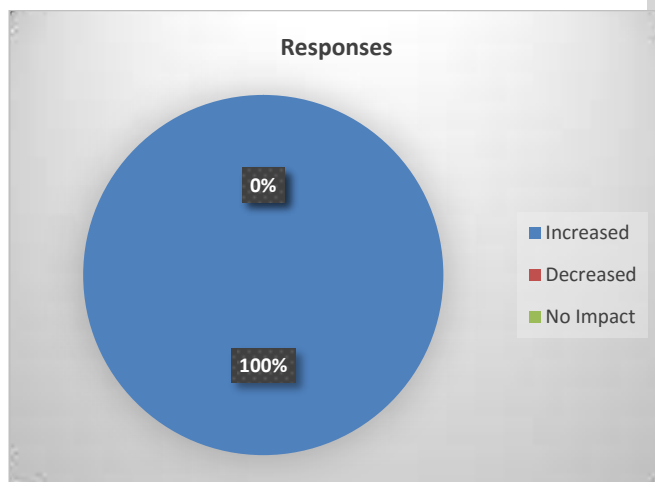
Option	Responses	In %
Increased	40	80
Decreased	5	10
No impact	5	10



Through this question we can understand that the use of online banking has increased after demonetization. In India people were mostly dependent on cash transactions but after demonetization when the supply of money was less people are resorting to the use of online banking and online payments to meet their daily expenses. Thus we can say that the use of online banking has increased after demonetization.

4. What is the impact of Demonetization on the use of plastic cards?

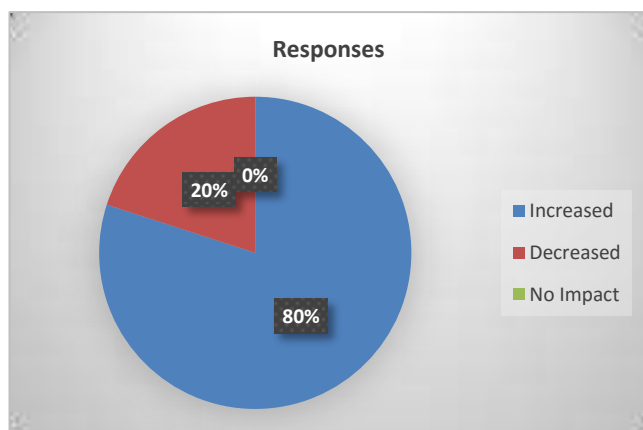
Option	Responses	In %
Increased	50	100
Decreased	0	0
No impact	0	0



Through the responses of this question we can interpret that all of the people believe that demonetization has increased the use of plastic cards. Due to the decrease in the supply of cash because of demonetization most of the people have resorted to the use of online banking, plastic cards, mobile banking, etc.

5. What is the Impact of demonetization on the functioning of ATM?

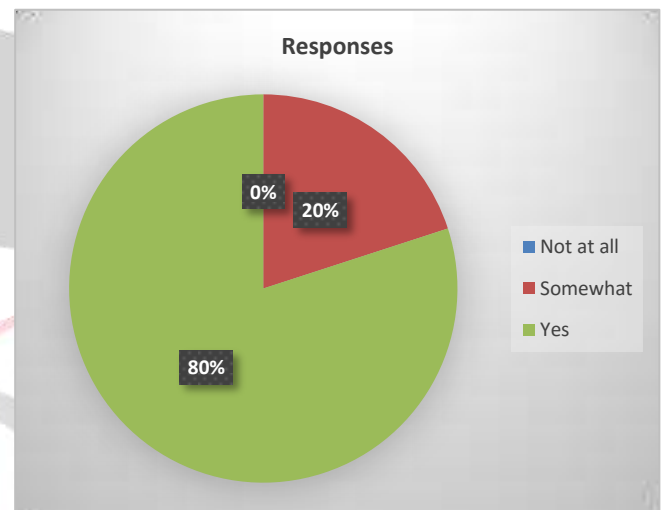
Option	Responses	In %
Increased	40	80
Decreased	10	20
No impact	0	0



Through the responses of this question we can clearly see that the functioning of ATM has increased after demonetization. After demonetization the government has imposed a limit to the withdrawal of cash because of which the customers are visiting the ATM n number of times to withdraw the cash so as to meet their cash requirement.

6. Do you think Demonetization is having a positive impact over banking sector?

Option	Responses	In %
Not at all	0	0
Somewhat	10	20
Yes	40	80



Through the responses of this question we can clearly see that those bank employees who have filled this questionnaire do believe that there is an impact of Demonetization on the banking sector. The result shows that frequency of usage of internet banking services is higher After demonetization than before demonetization.

V. FINDINGS

1. Demonetization helped reduce black money, corruption and terrorism in India because there are equal responses for the two options i.e. somewhat and yes.
2. People mind the inconvenience faced through demonetization as maximum number of people have opted for the option yes. This include bank employees also as their workload increased and they had to work overtime.
3. The use of online banking increased after demonetization due to decrease in the circulation of currency and long queues outside ATM and bank branches people started using online banking.
4. The use of Plastic cards has increased due to less circulation of money in market
5. The functioning of ATM has increased because more and more people are using the ATM to withdraw their cash and they are using it number of times to fulfil

their cash requirement because of the withdrawal limit.

6. 80% of the people believe that there was positive impact of demonetization on the banking sector.

EFFECTS OF DEMONETIZATION ON BANK OPERATIONS

Demonetization has brought plethora of challenges in additions to the challenges which are already facing by Banks. The influences were short-term and long-term views. In short-term, it disrupted the banks and stressed strongly to carry out bank operations and in long run it helped the banks to pool the deposits without incurring of any cost.

Here are four influences of demonetization on Banks.

1. Increase in Deposits: demonetization has increased the deposits in Banks. Unaccounted money in the form of Rs.500 and Rs.1000 were flowing to the Banks and the sizes of deposits have been increased. It helped the banks to grab the deposits and increase their deposits.
2. Fall in cost of Funds: Over the past few months, the deposits are increased. It led the banks to keep a major part of deposits in the form of cash deposits. PSU Banks have a lion share (over 70%) of the deposits and biggest gainers of the rise in deposits, leading to lower cost of funds.
3. Demand for Government Bonds: After sharp rise in deposits on post demonetization, banks started lending such surplus deposits to the RBI under the reverse repo options. PSU Banks, particularly, deployed excess funds in government bonds. The return on bond investment is likely to add 15 to 20 per cent increase in the earnings of banks.
4. Sagging in Lending: lending growth of the banks is considerably less even after demonetization and its impact of growth in the amount of public deposit. Banks have tried to lend the money to the needy group by reducing their interest rates, but it shrunk over the last few months.

RESULTS OF POST DEMONETIZATION ON BANK OPERATIONS

There are positive and negative results of Post Demonetization on Bank operations. Both have influenced Banks' liquidity and profitability and employees too. The following are positive results of demonetization.

1. Free flow of deposits: Banks have gained deposits substantially after demonetization which they can invest for improving their liquidity and profitability.
2. Improved digital Interface: Improvement in digital tools and equipment to execute bank transactions has avoided cash loss for various reasons like theft, dacoits and misappropriations.

3. People's surplus at Bank: cash is an idle asset which does not yield any income unless kept in a bank. So, demonetization made the people to keep their surplus money in a bank to earn some sort of income.
4. Increased number of Customers: Demonetization has influenced public to come and execute transactions with banks. It made even a non-income group people to visit bank and have an account. It increased number of account holders in banks while increasing deposit corpus.

Similarly, Demonetization has brought some operational issues to Banks. It disturbed Bank's Employees, Operational Costs and Profitability. The following are negative influences of Demonetization.

1. Cash Reserve Requirement: 100% CRR on incremental deposits meant that banks did not earn any interest on Rs. 3 Lakh crore of deposits for nearly a fortnight.
2. Waived off ATM Charges: ATM charges were waived off during banned note exchange and banks incurred a loss of Rs. 20 in every transaction.
3. Waived off Merchant Discount Rate: Banks incurred loss of 1% discount charges from merchants on using of every card transaction.
4. Non Selling of Loans: Banks were focused on exchanging currency notes and they were not able to sell any loan products. This made banks to curb their lending activities.
5. Reduced SME's Sale and influence on NPAs: During demonetization, some SME businesses had seen their sales drop by 50-80 percent and could default in their installments to banks. This led the banks to consider it as NPA and affected its level in banks.
6. Stress on Employees: Bank Employees were put under pressure and overtime work environment. It depressed them and kept imbalanced life style. Few cases were found where the employees committed suicide due to work pressure

VI. SUGGESTIONS

1. Educate everyone about the use of e-wallet and Debit & Credit Cards. Proper classes about the use of e-wallet and cards should be taken at each & every office, organization, companies etc. whether private or government. Camps can be held at village levels & city levels at each & every corners. Social workers, panchayat members, municipal corporation members & staff should come forward in explaining the use of digital media for buying commodities in the market.
2. Give every businessman, who has current account with banks, swipe machine at the earliest possible. Tragedy is many bank branches still do not provide the facility of giving swipe machines to its

clients. Immediate steps to be taken by the concerned authorities to equip banks with these machines so that it can be distributed to the traders. Also, proper training should be given to traders about its use.

VII. CONCLUSION

This paper is basically empirical in nature and is regarding post effects of demonetization. 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. 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. At the end of this research after analyzing the data collected over here, we can conclude that Demonetization has helped reduce black money, bribery and terrorism in India. People have faced inconvenience because of demonetization and they are not happy with it. It has not helped the bank employees as their workload has also increased because of it. Demonetization has led to the increase in the use of plastic cards, online Banking, opening of new accounts, number of customers in the branches and the use of ATM. Thus we can say that demonetization has brought positive impact on banking sector .

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