Special Issue Published in International Journal of Trend in Research and Development (IJTRD), ISSN: 2394-9333, www.ijtrd.com

# Demonetization: Impact on Banking Sector

[1]Dr.G.Uppili Srinivasan, [2]Anandhi Eakamaram and [3]Vincilin Nesamani
[1]Head of PG Research, [2,3]Research Scholar
[1,2,3]Department of Commerce, Joseph Arts and Science College, Thirunavalur, TamilNadu, India

***Abstract--*** The move by the government to demonetize Rs.500 and Rs.1000 notes by replacing them with new Rs.500 and Rs.2000 notes has taken the country with surprise.The government is to tackle the menace of black money, corruption, terror funding and fake currency. From a market perspective, we think that this is a very welcome move by the government and which has taken the black money hoarders with surprise. The total value of old Rs.500 and Rs.1000 notes in the circulation is to the tune of Rs.14.2 trillion, which is about 85% of the total value of currency in circulation. This means that the total cash has to now pass though the formal banking channels to get legitimacy. The World Bank in July, 2010 estimated the size of the shadow economy for India at 20.7% of the Gross Domestic Product (GDP) in 1999 and rising to 23.2% in 2007. Assuming that this figure has not risen since then (quite unlikely though) and that the cash component of the shadow economy is also proportional estimated unaccounted value of the currency could be to the tune of Rs.3.3 trillion. Now, post the announcement of demonetization by the government this money would have to either account by paying the relevant tax and penalties or would get extinguished. There are higher chances of larger proportion of this unaccounted currency getting as the tax rate and subsequent legal issues could be prohibitively high for such money. Questions began to emerge. Will it be effective if people can still create new black money thereafter! Will it increase the GDP! Will it increase inflation! What about tax revenues! We look for answers.

In India, the Rs 500 and Rs 1,000 notes also constitute a huge percentage of the money spent by governments, political parties and candidates during general elections. A Centre for Media Studies report showed that nearly Rs 30,000 crore was spent during the 2014 general election, while official spending only accounted for Rs 7,000-Rs 8,000 crore.

## I. DEFINE DEMONETIZATION

Demonetization - ending something, termination, conclusion as no longer the legal tender of a country. The act of ending something; "the termination of the agreement".
"There is a famous saying in Telugu, the one who gets caught doing a mistake is a thief, and the one who doesn't get caught, and doing the same mistake is a king".

1. The numbers and calculations for this are mind-boggling. According to the RBI press conference, there are 16.5 billion '500-rupee' notes and 6.7 billion '1000-rupee' notes were circulated. Which according to the government would be limited in circulation.
2. Of this Rs 500 notes constituted almost 45% of the currency in circulation while 39% of the notes were of the Rs 1,000 denomination. In value terms. However Rs 10 and Rs 100 notes constituted 53% of the notes in circulation.
3. The Financial Action Task Force, a global body that looks at the criminal use of the international financial system.
4. In two words: black money. Unaccounted money, often used in any form of corruption or illicit deals, usually takes the form of high-value notes, which in this case are the Rs 500 and Rs 1,000 bills.

Why ban Rs 500 and Rs 1000 notes To avoid funding for anti-social elements like smuggling, terrorism, espionage, money laundering schemes, racketeering, and drug and people trafficking etc. This of course only scratches the surface: major industries such as real estate have historically been conduits of black money. However, is that the share of large-value notes has only been increasing over the years. While some of this is no doubt due to the natural growth expansion of our economy, it also hints at the increasing size of our black money economy.

Accepted the change & be the change So when someone asks, why do we need to suffer? I would like to say, please don't suffer, find an alternate. And when someone asks, why no billionaire stands in a queue? Of course, the problem of a common man may get resolved by standing once or twice in the queue, but, what solves the problems of a billionaire. She/he just stays back home and finds the ways.

## II. IMPACT OF DEMONETIZATION

It is too early to comment on the impact of demonetization or effect of demonetization. This is still under implementation process. There are both positive and negative impacts of demonetization.

## III. OBJECTIVES

1. Aimed at combating corruption. And Check black money and fake currency note.
2. 1000 and 500 were put out of circulation and Effect on parallel economy.
3. All the bank accounts are tied up to one PAN (Permanent Account Number).
4. This move shows strength of the Banking system, Retail boost, and increases deposit.
5. This move will also cause short-term pain for the working class, small businesses and nearly anybody who deals with cash on a daily basis.
6. Remove black money from the economy as they will be blocked since the owners will not be in a position to deposit the same in the banks.

## IV. DISADVANTAGES

1. People who are in village, remote areas would not that much aware of demonetization, might not be able to exchange their money.
2. Farmers who don't have an account in banks won't be able to change their whole cash into new currency as there are limits imposed.
3. If somebody and couple who's has left his family was against their marriage without any Identity proof won't be able to change their money, and will be left with nothing but paper in their hand.
4. Poor people who work on daily wages won't be able to get their wages as there is shortage of cash.
5. On the other hand, as analysts have noted, India's larger and new-age companies will have no problems in making the switch to Rs 2,000 notes.

## V. ADVANTAGES

1. Limiting ATM withdrawals will encourage cash less card payments across the country.Interest rates: There should be a rise in bank interest rates.
2. Tracking of money is made easy as the exchange only available by producing valid identity proof like Aadhaar, PAN, and Election Card.
3. Benami transactions will be blown away as the new legislation provides a provision for seven-year imprisonment or fine, or both.
4. The decision results in more transparency in the Indian real estate industry, Housing prices may witness a downfall restoring demand in the housing segment.
5. Higher Education and Healthcare transactions will come in the reach of an ordinary man.
6. The New digital Laws: step forward and bring more, new laws, and understand the safetyof digital banking.

These are the analyzed sectors that which most affected by de-monetization because of the high level of cash spending.

1. Agriculture and sole traders,
2. Household's workers,
3. Real Estate, Gold prices,
4. Banks, Entertainment/Restaurants,
5. Beauty parlous and Tourism etc.

How will demonetization affect banking industry?

Now, with the massive, irreversible and comprehensive push on 'going cashless' and 'adopting digital', the banking industry is going to adopt financial technology with a new scale and scope. Investments will indicate the direction towards a system where intelligent technology and software takes care of most.

Banks are the back bone of tis entire process and also the biggest beneficiaries. Post Complete exchange of currencies, banks should benefit from higher deposits and transaction volumes, lower cash handling costs and greater acceptance of digital channels.

To be secondary benefits for the insurance, asset/wealth management companies through higher financial savings. While the nifty closed 1.31% down, Bank nifty closed higher by 0.09% giving a confirmation of the same.

Increased Deposits:

This development will increase bank deposits by 1 to 2% compared to what they were before the demonetization scheme, deposit inflows, followed by sharp outflows. Though the sudden withdrawal of 86% of currency (in terms of value) from the economy will not reduce people's dependency on cash, bank deposit levels will benefit in a "more meaningful fashion" once the informal economy is brought into the formal economy over the next few years.

What is CASA?

CASA is abbreviation of current Account Savings Account. It is the ratio which indicates how much of the total deposits with bank in the current account and savings account. In a simple language, the deposits with the bank are in the current account and savings account.Banks do not pay interest on the current account deposits and pays a very low% of interest on savings on account deposits. Hence, it is a good measures to get deposits at no or very low cost.

NPA:

Definition: A non-performing asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days.

Description:

Banks are required to classify NPA further into substandard, Doubtful and Loss assets.

Credit risk

According to the Bank for International Settlements (BIS), credit risk is defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk is most likely caused by loans, acceptances, interbank transactions, trade financing, foreign exchange transactions, financial futures, swaps, bonds, equities, options, and in the extension of commitments and guarantees, and the settlement of transactions.

In simple words, if person A borrows loan from a bank and is not able to repay the loan because of inadequate income, loss in business, death, unwillingness or any other reasons, the bank faces credit risk. Similarly, if you do not pay your credit card bill, the bank faces a credit risk.

Market risk:

Market risk can be better understood by dividing it into 6 types depending on the potential cause of the risk:

Interest rate risk: Potential losses due to fluctuations in interest rate.

Equity risk: Potential losses due to fluctuations in stock price.

Currency risk: Potential losses due to international currency exchange rates.

Commodity risk: Potential losses due to fluctuations in prices of agricultural, industrial and energy commodities like wheat, copper and natural gas etc.

Operational risk:

Operational risk can be categorized in the following way for a better understanding:

Human risk: Potential losses due to a human error, done willingly or unconsciously.

IT/System risk: Potential losses due to system failures and programming errors.

Processes risk: Potential losses due to improper information processing, leaking or hacking of information and inaccuracy of data processing.

Liquidity risk:

Liquidity risk as the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss.

Look at this risk like persona going to a bank to withdraw money. Imagine the bank saying that it doesn't have cash temporarily! That is the liquidity risk a bank has to save itself from. And this is not just a theoretical example. A small bank in Northern England and Ireland was taken over by the government because of its inability to repay the investors during the 2007-08 global crisis.

Reputational risk:

Just like any other institution or brand, a bank faces reputational risk which may be triggered by bank's activities, rumors about the bank, willing or unconscious non-compliance with regulations, data manipulation, bad customer service, bad customer experience inside bank branches and decisions taken by banks during critical situations. Every step taken by a bank is judged by its customers, investors, opinion leaders and other stakeholders who mould a bank's brand image.

Business risk

In general, business risk as the possibility that a company will have lower than anticipated profits, or that it will experience a loss rather than a profit. In the context of a bank, business risk is the risk associated with the failure of a bank's long term strategy, estimated forecasts of revenue and number of other things related to profitability.

Systemic risk

Systemic risk and moral hazard are two types of risks faced by banks that do not causes losses quite often. But if they cause losses, they can cause the downfall of the entire financial system in a country or globally.

Mobile banking services:

1. Account information
2. Mini-statements and checking of account history
3. Alerts on account activity or passing of set thresholds
4. Monitoring of term deposits
5. Access to loan statements
6. Access to card statements
7. Mutual funds / equity statements
8. Insurance policy management

Transaction

1. Funds transfers between the customer's linked accounts and Check Remote Deposit.
2. Paying third parties, including bill payments and third party fund transfers(see, e.g., FAST)

Investments

1. Portfolio management services and Real-time stock quotes
2. Personalized alerts and notifications on security prices

Support

1. Status of requests for credit, including mortgage approval, and insurance coverage
2. Check (cheque) book and card requests
3. Exchange of data messages and email, including complaint submission and tracking
4. ATM Location

Content services

1. General information such as weather updates, news
2. Loyalty-related offers and Location-based services.

Technology usage:

| TECHNOLOGY | CURRENT USE | USE IN NEXT 3 YEARS |
|---|---|---|
| INFRASTRUCTURE | | |
| PC Networks: Tellers | 48% | 80% |
| Sales Tracking Software | 44% | 80% |
| Relational Data Base | 36% | 76% |
| Automate Credit Scoring | 8% | 48% |
| E-mail | 60% | 95% |
| Equipment Management Software | 33% | 57% |
| Imaging Checks / Statements | 12% | 72% |
| Imaging Documents | 7% | 45% |

Delivery System:

| | | |
|---|---|---|
| Internet Banking Home Page | 3% | 25% |
| Internet Electronic Office | 1% | 15% |
| Telebanking | 56% | 88% |
| Smart Cards Debit Cards | 35% | 70% |
| Electronic Banking | 12% | 76% |

Strategy for the future

## CONCLUSION

Banks won't not be impressively wedged inside the long run, considering that the cash streams of the beneficiary segment square measure ordinarily inside the littler division. We tend to trust the aggregate measures taken to reign in dark money can enhance keeping money propensities, deliver cash and value-based history the basic structure of the bank is increasingly in conflict with the changing product, delivery, and service needs of the customers the future belongs to financial service provider's not traditional banks. The vast majority of large banks, will create value networks. Doing so presents tremendous challenges. Banks will have to first develop a comprehensive distribution system that will enable customers to touch them at multiple points. Banks must also create performance measurement systems to assure the mix products and services they offer are beneficial to both the customer and the bank. With other service providers. Nevertheless, technology alone will not solve issues or create advantages. This technology needs to be integrated in an organization, with the change management issues linked to people resisting new concepts and ideas. It also needs to support a clearly defined and well communicated business strategy.

### *References*


[1] taxguru.in/.../demonetization-effect-banking-sector.ht...

[2] www.bloombergquint.com/.../banking-sector-stands-t...2016 - Bank deposits will rise 1-2% compared to what they were without the demonetization scheme.

[3] www.researchandranking.com › Blog 2016 - Currency Demonetization ... c) Higher household savings in financial assets: Household sector saves ... Summary of macroeconomic impact...

[4] http://taxguru.in/rbi/demonetization-effect-banking-sector.html#sthash.uOs859u9.dpuf

[5] http://www.bloombergquint.com/business/2016/11/16/banking-sector-stands-to-benefit-from-demonetisation-says-moodys

[6] https://monishborah.wordpress.com/2016 - The World Bank did not mention the percentage of black money is 20% across all...