

# Chapter 1

## Introduction

Any country's economic development is largely impacted by the growth of its banking industry. The banking sector plays a crucial role in determining a nation's economic future. The social and economic infrastructure of an economy depends heavily on the design, organization, efficiency, and viability of its financial system. Due to the fact, a robust banking system is necessary for our modern society. The banking system serves as the financial engine of the nation's economy. It meets the financial needs of the economy, industry, and agriculture. As an outcome, there are connections between national development and the banking system. They are essential in mobilizing savings and distributing credit to the many economic sectors. It serves as financial intermediaries between the public who deposits money and the public who borrows money. Some banking services include checking or providing current and savings accounts for specific customers, paying customer checks, withdrawing cash, receiving deposits, and lending loans. Small changes in government policy can have a significant impact on the banking sector's operations, which can directly affect the growth and development of the nation's economy. The demonetization of the 500 and 1000 rupee notes took place in India on 8 Nov. 2016. The various banking operations underwent significant changes as a result of the sudden demonetization. The government-owned and private-sector banks in India, in particular, performed admirably during the demonetization. In a shorter period of time, banks and their staff protected the nation from sudden financial trouble by successfully carrying out their jobs. This chapter provides an overview about the meaning and functions of banks. This chapter also explains the concept of demonetization and provides a historical overview of demonetization both domestically and internationally. The impact of demonetization on the banking industry is also covered.

## ***1.1 MEANING OF BANK***

A bank is an entity that takes deposits from the public and lends money to people, businesses, and the government organizations. The safety of the deposit and withdrawal of the deposit whenever necessary are two guarantees provided by banks to the depositors. Banks impose interest rates that are greater on loans than on deposits. Banks are growing and diversifying as a result of the growth process. Their activities are expanding and becoming broader. Consequently, it is very challenging to provide a bank definition that is accepted by everyone.

## ***1.2(A) PRIMARY FUNCTION OF BANKS***

### **ACCEPTING THE DEPOSITS**

The primary duty of commercial banks is to gather public deposits, which are frequently reimbursed upon demands or after a time period. The interest paid by the banks for these deposits is referred to as interest expense. As a result, banks serve as the custodians of depositors' money. There are several different sorts of deposits that can be made, including savings deposits, current deposits, fixed deposits, and recurring deposits.

### **SAVINGS DEPOSITS**

It encourages people to save money and spread the practice of banking. It offers low interest rates on savings bank accounts and consumers are only permitted to a certain number of withdrawals each month. Both single and joint names may be used to open saving accounts. Earners of salaries and wages generally prefer savings accounts. Now banks are providing the facility to customers to start a savings account with zero balance.

### **CURRENT DEPOSIT**

Generally, this account is opened by business man. There are no withdrawal limitations on these accounts. Bank does not charge any interest rate on these accounts. Bank also gives the facility like overdraft, cash credit options.

### **FIXED DEPOSIT**

Anyone who wants to deposit a large amount of money at once for a certain length of time may open this account. This account offers a higher interest rate depending on time also withdrawals of money from these accounts are prohibited prior to the period's expiration.

### **RECURRING DEPOSIT**

People with regular and fixed income, typically open and manage these accounts. A certain sum of money is deposited on a regular basis; say once per month for a year. These accounts offer a higher interest rate and withdrawals of money is not allowed before the certain period of time.

### **LENDING LOANS AND ADVANCES**

Another main responsibility of commercial bank is lending loans and advances to consumers and businesses. The interest rate charged on these loans and advances is typically greater than the rate charged on deposits. The primary source of earning for commercial banks is interest income. Interest Spread adds to its profitability. In addition to lending, banks often hold back a certain amount of money to cover operating costs and demand of depositors. There are different types of loan available in the market. **LOANS**

Loans are usually approved for short- or medium-term periods. Currently, banks are offering long-term loans also. Loan payback can be done in a flat sum or over a set length of time in a variety of installments (for example, monthly, quarterly, semiannually or annually). Banks only take interest on amount of approved loan and this charge is a little lower than that of an OD or CC facility. Banks anticipate that the borrower will provide some movable assets as collateral (security), such as a stock of raw materials or finished items. There are several different kinds of loans available like mortgage loans, personal loans, school loans, etc. Borrowers receive mortgage loans to buy immovable tangible assets like homes, buildings, and land. Currently, most of the banks are giving home loans. Banks also give educational loans for studies at an

affordable interest rate. Individuals can obtain personal loans (also known as consumer finance) on simple terms and conditions to purchase consumer durables.

## ***1.2 (B) SECONDARY FUNCTIONS OF BANKS***

These are the additional services that banks provide. Banks provide different types of secondary services other than their primary duties of collecting deposits and disbursing loans and advances. Agency and utility functions are among them.

### **AGENCY FUNCTIONS**

The banks perform a number of agency functions on behalf of the customer, including cheque collections, money transfer, periodic payments, recurrent debt payments, portfolio management, and other duties.

### **TRANSFER OF MONEY**

All the banks move money for their clients from one branch to another or from one location to another. Currently, banks enable these transfers through technology and telecommunications systems. For instance, electronic fund transfers (EFT). Banks charge service fees for this service.

### **COLLECTION OF CHEQUES**

Through their clearing section, banks assist in the collection of payments. Therefore, once the clients receive the cheques through the clearing procedure and present them for collection, the cheques are credited to their accounts. Banks accept both in-station and out-of-station checks from the same bank or from different banks. For offering this service, they charge pretty low collecting fees.

### **PERIODIC PAYMENTS**

Periodic payments, such as those for rent, interest, and other recurring expenses, are carried out by banks on behalf of their clients in accordance with their predetermined instructions.

### **PERIODIC COLLECTIONS**

Banks perform recurring collections on behalf of customers and in compliance with their standing orders, like the receiving of salaries, pensions, interest, rent, etc.

### **PORTFOLIO MANAGEMENT**

Bank provides portfolio management services to assist their customers or clients in making investment decisions on the acquisition or sale of assets like debentures, shares.

### **OTHER AGENCY FUNCTIONS**

Banks perform additional agency functions such as functioning as administrators, counselors, trustees, executors, etc. on behalf of their customers.

### **GENERAL UTILITY FUNCTIONS / FINANCIAL SERVICES**

The banks provide a variety of general utility tasks, including the issuance of letter of credit, draft, shares underwritings, locker services, trading in foreign exchange and other additional tasks.

### **ISSUE OF LETTER OF CREDITS DRAFTS, AND TRAVELER'S CHEQUES**

Banks issue draughts, traveler's checks, and letter of credits to make money transfers between locations easier and to provide import trade guarantees. Banks also issue travelers' checks.

### **SAFETY LOCKER FACILITY**

This facility is provided by banks to Customers. They can use it to store their valuables things including property papers, gold and other items.

### **UNDERWRITING**

The Banks act as merchant bankers by underwriting shares and debentures through their subsidiaries. Banks are paid an underwriting commission for this.

## **TRADING IN FOREIGN EXCHANGE**

Banks are able to trade in foreign exchange since the RBI has given them permission. Depending on their position, they will act as deal maker or traders.

## **SOCIAL RESPONSIBILITY PROGRAMMES**

Banks do some social responsibility programs. To demonstrate their social responsibility, banks take initiative in public welfare campaigns, adult literacy initiatives, school and infrastructure maintenance, blood donation drives, etc.

## **OTHER UTILITY FUNCTIONS**

Any additional service the bank offers to clients could be considered one of the other utility functions. For examples, gathering and providing corporate data, serving as a financial mediator for clients, etc.

### ***1.3 PROFILE OF STATE BANK OF INDIA***

The State Bank of India (S.B.I) was founded on July 1st, 1955. In this year, the Indian government nationalized the Imperial Bank of India and changed its name to the 'State Bank of India'. Headquartered in Mumbai, this leading Indian bank provides a comprehensive variety of financial services. It provides many financial services through its multiple subsidiaries besides conventional banking services, including mutual funds, life insurance, credit card, merchant banking, factoring, security trading, as well as principal dealership in the money market. The bank has four business divisions - Retail banking, corporate banking, Treasury, and the other banking service divisions. The Retail banking segment comprises of branches in the national banking group which mainly focuses on personal banking activities including lending activities to corporate customers. The Corporate banking division covers lending activities of Corporate Accounts Group, Mid Corporate Accounts Group, and Stressed Assets Management Group. SBI's treasury division does trading in derivatives, contracts and

foreign exchange. SBI offers a variety of banking products through its extensive network of branches in India and abroad, including products specifically targeted at NRIs.

The State bank of India is one of the most reputable organizations, ranking as high as 10 on the Forbes list which is no mean achievement. The bank has a worldwide presence with over 227 offices, across 206 locations, in 30 different countries. It also has representative offices in Bhutan, Capetown, besides offshore banking units in Singapore, Bahrain, and Bahamas.

In 2001 SBI established its insurance wing - the SBI Life Insurance Company. In 2005-06, SBI went on to provide the "SBI e-tax" facility, an online tax payment service for tax payments. Additionally, it introduced the centralized pension processing scheme for its customers. It collaborated with T.C.S company to create C-Edg Technologies which provides consulting services to the banking, insurance and other financial sector. SBI also launched new goods and services like complete cash management, internet trading and rapid fund transfers. The bank went on a branch opening spree in 2007–2008, opening 965 branches around the country to further strengthen its banking network and reach. Simultaneously, it introduced new products like SBI Home Plus and SBI Reverse Mortgage Loans to the home loan market. The bank signed a MoU with the Indian Railways to install over 682 ATMs across train stations. In March 2008, SBI became the second largest bank in the world, after China's ICBC, to have more than 10,000 branches when they established their 10,000th branch. Later, in the year 2008-09, it launched three new products viz the SBI Lifestyle, SBI Happy Home Loan and SBI Special Home Loan. They signed an exclusive agreement with Tata Motors to manage the booking process for Tata "Nano" automobiles. In this context, the bank introduced an online application form on their website for registering inquiries about auto loans and quickly tracking and turning these leads into auto loans. The bank has rescued various public sector banks, for instance on August 13, 2008; it merged with the State Bank of Saurashtra (SBS), it's fully owned subsidiary of the Bank. In 2009–2010, the Bank added 1049 new branches. In

accordance with a merger plan approved by the Central Board, the State Bank of Indore was merged with the bank in August 2010. In 2013 the Bank opened its second branch in Tianjin (China). The Union Cabinet approved the acquisition of State Bank of India's subsidiary banks, State Bank of Bikaner and Jaipur, Bank of Mysore, State Bank of Hyderabad, and State Bank of Travancore, State bank of Patiala. SBI merged five of its associate banks viz. State Bank of Bikaner & Jaipur, State Bank of Mysore, State Bank of Travancore, State Bank of Patiala and State Bank of Hyderabad and Bhartiya Mahila Bank with itself with effect from 1 April 2017. The bank has always strived to reach out to all segments of the population. A good example would be the smart prepaid cards for pupils and workers. In July 2009, SBI launched another product the 'SBI Loan to Affluent Pensioners' enabling government pensioners to avail personal loans up to Rs 3 lakh for employees of the armed forces - Air Force, Navy and Army – who have their accounts with them. Working with Accenture, State Bank of India introduced digital self-service and online banking services in 2014. State Bank of India (SBI) stated on March 31, 2015, that the bank's Executive Committee of the Central Board (ECCB) had authorized divestment of up to 10% of SBI's shareholding in SBI Life Insurance Co. Ltd. On June 30, 2016, the State Bank of India and Reliance Industries Limited (RIL) signed a shareholders' agreement to establish the Payments Bank.

As on March 31, 2019, the bank had one of the largest ATM networks in the world, with over 58415 ATMs, including 7568 ADWMs (Automated Deposit and Withdrawal Machines). The Bank operates 57467 BCs across 22000 branches. By the end of 2020, the bank's total investment has increased by 7.35 % from the previous year. As well as the loan portfolio of banks also increased by 6.38% in the same year. In March 2020, SBI supported the Indian Government's restoration plan for Yes Bank and invested Rs. 6050 crore in Yes Bank. With effect from March 14, 2020, Yes Bank Limited joined the SBI Group as an associate. SBI was recognized as the Iconic Brand of India 2021 by The Economic Times.



## ***1.4 PROFILE OF PUNJAB NATIONAL BANK***

In 1895, the Punjab National Bank was established in Lahore, then part of undivided India. It has the unique distinction of being the first Indian bank to be founded entirely using Indian capital. In the year 1940, The Bhagwan Dass Bank, a scheduled bank with offices in Delhi Circle, was absorbed by the bank. The Bank also acquired 39 Bharat Bank branches in 1951 and the Universal Bank of India in 1961. In 1969 The Punjab National Bank (PNB) was nationalized along with 13 other banks. It acquired Hindustan Commercial in 1986 which added Hindustan's 142 branches to the bank's network. They also purchased New Bank of India from the GOI in 1993. The Bank started financing against mortgages of immovable property in the year 2000. It started its gold business in September 2000 under the Gold Import Scheme. The Bank had its first initial public offering (IPO) in March 2002 for 53060700 equity shares at a price of Rs 10, which led to a decrease in the government's ownership of the bank. They entered into a partnership with Infosys to create a central banking solution for the bank. Additionally, as part of their Rs 150 crore plan, they forged an alliance with Cisco Systems to network 3870 branches. In 2003, The Bank acquired Nedungadi Bank Ltd., situated in Kozhikode. During this period, they launched a London representative office. The same year ICICI Bank and PNB inked a MoU for the sharing of ATM networks. They gave Tata Consultancy Services (TCS) a project to create a payroll and human resource management solution to streamline their administration. They opened a branch office in Afghanistan's capital city of Kabul. Additionally, they established a Shanghai representative office. In order to make it simple to transfer the money for migrants, the bank formed an association with that financial institution in Nepal. In 2006, the Bank partnered with Master card international to provide signature-based debit cards. They also formed a partnership with Indian Airlines to offer online tickets. In the same year, they established a new branch in Uttarakhand. The Bank started conducting commercial banking in Hong Kong in January 2008. In the year 2008-09,

they opened 90 new branches and 78 existing counters were upgraded. They not only formed a partnership with LIC to sell insurance, but also partnered with Oriental Insurance to sell non-life plans through referrals. In February 2009, they commercially introduced two kinds of credit cards which were Classic and Gold Credit cards. It also signed a contract with O.I.C to promote insurance goods, under a technique often known as bancassurance. In March 2009, PNB and Tata Motors reached an agreement to finance Tata's full line of passenger cars. It added 524 domestic branches in 2009–2010, of which 347 were at new locations and 177 were upgrades of existing extension counters. They installed 1400 ATMs, bringing the total number of ATMs to over 3500. They established their presence in two major foreign locations in Hong Kong and in DIFC Dubai respectively. In 2010-11, The Bank launched a new collection of goods and services including among others PNB Suvidha, PNB Uphaar" and the World Travel Card. On 13 December 2010, they purchased a 63.64% share in JSC Dana Bank of Kazakhstan. The joint venture between the Bank and India Factoring and Finance Solutions Pvt Ltd started conducting business in Delhi, Mumbai, and Chennai on January 12, 2011. By the end of March 2011, there were 5189 branches overall and 28 Extension counters. The branch network is among the largest in the country consisting of 877 Metropolitan, 2047 Rural, 1154 Semi-Urban and 1111 Urban. 210 domestic branches were opened over the review period. PNB reported on March 5, 2010, that the RBI has given the bank permission to open an office in Sydney, Australia. On December 13, 2010, PNB made an announcement stating that the bank had successfully completed the acquisition of a 63.64% share in JSC Dana Bank Kazakhstan. On April 2, 2012, PNB announced that it has allocated 65.25 lakh equity shares to the G.O.I on a preferential basis after receiving an allocation fund of Rs 654.99 crore from that government. PNB stated on January 16, 2013, that the bank has purchased a 30% stake in Met life India Insurance Co. On April 1, 2014, PNB reported that it had earned Rs 107.83 crore from the sale of its full 30% stake in India Factoring & Financial Solutions Ltd. (IFFSL) to parent promoter

FII (FIM Bank (Malta). In FY 2015, the Bank formed partnerships with top producers of agricultural equipment, tractors, irrigation systems, and other products. The Bank also focused on growing its portfolio of livestock advances during the year by providing financing through partnerships with dairy cooperatives and corporations. The bank was also concentrated on providing funding for Agri-logistics services like rural go downs, cold storage, and agri-transport. On January 17, 2017, a memorandum of agreement between Punjab National Bank (PNB) and India Post Payments Bank (IPPB) was signed and according to which PNB would supply the technical infrastructure for IPPB's pilot launch after receiving regulatory confirmation from the R.B.I. At its meeting on November 2, 2017, the PNB Board of Directors gave the management permission to sell a portion of its ownership interest in PNB Housing Finance Ltd.

In the year 2017, the overall ATM network was increased to 10681 following the installation of 1218 additional ATMs. E-surveillance systems were implemented at all ATM locations and solar UPS were used to manage any ATM downtime caused by power outages. The Bank also introduced ESQ ATM Monitoring System for real time corrective and /or preventive actions in case an ATM went out of service. In the same year, PNB introduced a Business Debit Card with increased transaction limit/s allowing ATM withdrawals of up to Rs 1 lakh and e-commerce transactions of up to Rs 3 lakh.

In 2018, PNB suffered from a major fraud. On Feb 14, 2018, PNB notified the stock exchanges that they had discovered a huge scam totaling Rs. 11394.02 crore, on February 12, 2018. RBI was informed of a total fraud case involving the unauthorized issuance of letters of undertaking, foreign letters of credit, and inland letters of guarantee in the group accounts of the Nirav Modi Group, M/s Gitanjali Group, and in the account of M/s Chandri Paper & Allied Products Pvt. Ltd., total of Rs. 11394.02 crore (roughly USD 1771.69 million). Later, on February 26, 2018,

PNB also notified the stock exchanges that the amount of reported unlawful transactions may rise by an estimated USD 204.25 million.

The G.O.I approved the plan to merge O.B.C and U.B.I into Punjab National Bank. The merger was in effect of April 1, 2020. As of March 31 2022, the bank had one of the largest networks with 10098 branches, including 1753 metropolitan, 2035 urban, 2457 semi urban, and 3853 rural branches. As of March 31, 2022, the bank's total assets were at Rs. 1314805 crore.

### ***1.5 PROFILE OF BANK OF BARODA***

Bank of Baroda is one of India's important commercial public sector banks. Maharaja Sayajirao III of Baroda started this bank with a paid-up capital of 10 lakh rupees on July 20, 1908 as a private bank. It was originally called "The Bank of Baroda Ltd" and its first branch was established in Ahmadabad in 1910. In 1919, First branch was opened in Mumbai. The Bank went on to open its first international office in Mombasa, Kenya, in 1953. Bank of Baroda next opened 3 branches in Fiji, three more in Uganda, five in Kenya, and one branch each in London and Guyana in about sixteen years from 1953 to 1969.

BOB also used mergers to grow during these years. It merged with, The Hind Bank in 1958 and with The New Citizen Bank Ltd. Four years later. In 1964, it merged with two more banks The Umargaon Peoples' Bank and Tamilnadu Central Bank respectively. In July 1969, BOB was also nationalized along with many leading banks and it adopted the new name of "Bank of Baroda". It continued with expansion outside India from 1969 to 1974 opening two branches in the UK, one in Fiji, and three more in closer home in Mauritius. In 1974, they began banking operations in the lucrative oil-rich Gulf nations after opening two new branches in the U.A.E - one in Dubai and another one in Abu Dhabi.

The Bank launched credit cards operation in the year 1984. Four years later, the Traders Bank Ltd. amalgamated with the Bank of Baroda. The Bank also started a housing finance subsidiary

called the BOB Housing in 1991. In December 1996 the bank opted for an Initial Public Offering to enter the capital markets. The very next year in 1997, they established a branch in Durban, and in the year 1999, they also started operating as a depository. On the merger side, the Bank amalgamated with Bareilly Corporation Bank in that same year. In 2000, with the aim to create a Comprehensive Risk Management Architecture for itself, the Bank hired Arthur Andersen India Pvt Ltd as a risk management consultant. One year later in 2001, they set up a separate risk management department and a specialist integrated treasury branch. In the year 2002, The Benares State Bank Ltd, merged with the bank. In 2004, The South Gujarat Local Area Bank amalgamated with the bank. During 2004-05, the Bank increased the number of interconnected ATMs network to 501 spreads across 180 centers in the country. The bank has since implemented 24-Hour banking at 5 locations across India and 8AM to 8PM banking at about 101 branches. The bank established an Offshore Banking Unit (OBU) in Singapore in the year 2006. They put into service 464 new ATMs nationwide, bringing the total to 634. In the year 2008-09, the bank signed a Memorandum of Understanding with several auto manufacturing companies including Maruti Suzuki India Ltd., Tata Motors Ltd., Hyundai Motors India Ltd and Mahindra & Mahindra Ltd. This helped them to increase their auto loan portfolio. The bank decided to get a reasonable footprint in the life insurance market and formed a partnership with Kotak Mahindra Old Mutual Life Insurance Ltd. Next, they decided to provide "Anywhere Anytime" banking to their large pool of clients, and to achieve this they put all of their branches on the CBS platform in September 2009. In November 16 2009 the bank set up a Joint Venture (JV) Life Insurance business namely India First Life Insurance Company limited with some other banks.

In the year 2010 the bank applied for and received a commercial banking license from Malaysia to set up a locally incorporated bank - India BIA Bank (Malaysia) to be jointly owned by Bank of Baroda, Andhra Bank and Indian Overseas Bank. BOB reported on February 29,

2012, that Banco Bilbao Vizcaya Argentaria (BBVA) has indicated it might not be able to move forward with a proposed joint venture on the credit card sector. In this context, Bank of Baroda had earlier signed a Memorandum of Understanding (MOU) with BBVA for a joint venture for a credit card business. In July 25, 2016 the bank announced that it had been fined Rs 5 crores by the Reserve Bank of India. The RBI had conducted an inquiry and found shortcomings indicating flaws and failures in internal control procedures with respect to certain AML rules, like the monitoring of transactions and timely reporting to FIU, as well as assigning UCIC to clients. The bank further stated that it had put in place a corrective action plan to improve internal controls to avoid recurrence of similar incidents in the future.

The bank is also a popular bank in the Maharashtra state. On February 14th, 2018, the bank stated that it had signed a MoU with the Small Farmers' Agribusiness Consortium (SFAC) in this capacity. Further, the bank stated that it would actively promote high-grade investments in the agribusiness and give loans to Farmers Producer Companies (FPCs) in Maharashtra. That loan was given under the scheme of SFAC which is an independent organization supported by the Indian government's Ministry of Agriculture Cooperation and Farmers' Welfare. During 2020, Bank of Baroda got into two important mergers with Vijaya Bank and Dena Bank respectively. At the NSDL Star Performer Awards 2019 at Taj Lands' End Mumbai, the bank won first place and was recognized as the top Performer in New Accounts Opened under PSU bank category. The bank renewed its existing Memorandum of Understanding (MoU) with the Indian Army and finalized new MoUs with the Indian Navy and Indian Coast Guard in December 2020, going on to provide specially tailored banking services through the "Baroda Military Salary Package". In 2021, it announced new retail asset products like the Personal Loan under COVID-19 Scheme for individual existing borrowers, the Baroda Personal Loan to Government Employees Salary Account customers and pre-approved loan for liability customers.

Bank of Baroda is one of the largest banks in India and a noticeable presence with 8246 domestic branches and 11553 ATMs as of December 2020. It is also unique among peers in that it has a considerable presence as an international bank with over 99 branches/offices in no less than 21 countries. It has two completely owned subsidiaries viz BOB Financial Solutions limited (formerly known as BOB Cards Ltd) and BOB Capital Markets. As mentioned earlier it also has a joint venture in the life insurance industry. FY 2021 saw the bank opening 13 new domestic branches and merging 1281 branches with its existing branches in a rationalization drive. As of March 31, 2022, the bank's distribution network stands at 8168 domestic branches, 94 overseas branches, and 11633 ATMs & cash recyclers. The bank went on to open 9 more domestic branches and merged 55 branches with existing branches during FY 2022 to further streamline its operations.

## ***1.6 PROFILE OF HDFC BANK***

HDFC Bank Ltd was incorporated on August 30 1994 by Housing Development Finance Corporation Ltd. As part of the R.B.I's liberalization of the Indian Banking Industry in 1994, Housing Development Finance Corporation Ltd. was one of the first organizations to get "in principle" approval from the RBI to establish a bank in the private sector. Subsequently the Ramon House Church gate branch became the bank's first location on January 16, 1995.

A new generation private bank HDFC has many firsts to its credit. In March 1995 when HDFC issued an initial public offering (IPO) of 50 crore rupees (5 crore equity shares of Rs 10 each at par), it created history - a record 55 times oversubscription. On May 19, 1995, HDFC Bank was listed on the Bombay Stock Exchange. On November 8th, the same year, the bank was listed on the National Stock Exchange. The very next year, the NSCCL chose it as the clearing bank of the year. The company introduced retail investment advising services in 1997. It introduced real-time online net banking in 1999. In February 2000, Bennett Coleman & Co. /Times Group-owned Times Bank Ltd merged with Bank Ltd. This was India's first merger

between two new-generation private banks. Working with VISA, the Bank was the first bank to introduce an international debit card (Visa Electron). In the year 2001, they launched their own credit card company. When The Central Board of Direct Taxes (CBDT) and the RBI authorized them to accept direct taxes, they became the first private sector bank in India to do so. During this year, the bank forged a strategic partnership with Bangalore-based business solutions software developer, Tally Solutions Pvt Ltd to create and provide products and services that facilitate online accounting and banking services for SMEs. During the year 2002–2003, the bank's network of ATMs grew from 479 to 732 while the number of branches increased from 171 to 231. They also developed a presence in the "merchant acquiring" industry. In the fiscal year 2003–2004, the bank grew its already sizeable network from 231 to 312 branches and expanded its ATM network from 732 to 910 locations. In the year 2003, they began offering HDFC Home Loan products through a partnership with HDFC Ltd. During the year 2004–05 fiscal year, the bank further expanded its network, adding 467 new branches and grew its ATM network from 910 to 1147 locations. The bank had also boosted its ownership in HDFC Securities Ltd. from 29.5% to 55% by September 28, 2005 to acquire HDFC Securities Ltd. as its subsidiary. The bank continued to expand by 77 additional branches in 2007–2008, bringing the total to 761 branches. 372 additional ATMs were introduced, the network of ATMs growing from 1605 to 1977. With effect from August 31, 2007, HDB Financial Services Ltd. became a subsidiary company.

On June 2, 2007 it made a bold statement opening 19 branches on one single day in the Delhi and the National Capital Region. The bank continued to increase the size of its distribution network during the 2008–2009 fiscal years and during that period, it had 1412 branches in 528 cities of India. September 28, 2005 saw HDFC Securities Ltd became a division of the bank. During the 2007–2008 fiscal years, the bank opened 77 new branches, bringing its total to 761 branches. 372 additional ATMs were introduced, raising the number of ATMs in the network



from 1605 to 1977. With effect from August 31, 2007, HDB Financial Services Ltd. became a subsidiary of the parent bank. In that one single year, the bank's ATM network grew from 1977 to 3295. With effect from May 23, 2008, Centurion Bank of Punjab Ltd. was amalgamated with the bank. This combination strengthened HDFC Bank's network's geographic reach, customer base, and increased its skilled staff. The bank established its foreign business office in Bahrain in October 2008. The bank increased the size of its network to 779 cities by opening the 1725 branches during the 2009–2010 fiscal years. The number of ATMs of the bank increased around 927 during this year. In 2010–2011, the bank did the extension of its branches to 1986 in 996 Indian cities. The number of ATMs at the bank grew and reached to 5471. In the year 2014, HDFC introduced “the missed call “banking service. This innovative service allowed users to access banking services without having to physically visit the bank or even connect online. Meanwhile the Bank continued to expand by 195 branches during the FY2017, bringing its total number of physical locations to 4715, in over 2657 cities and small towns. The total number of ATMs climbed to 12260. The customer base increased from 3.77 million to 4.05 million as the bank maintained its focus on semi-urban and rural markets, where it had build a significant presence - more than 52% of its branches were in semi urban and rural areas. By March 31, 2018, the bank served over 4.36 crore customers, up from 4.05 crore the year before. In the 2019 fiscal year, the bank acquired Rs 23715.9 crore. The bank also increased its number of banking outlets during the FY2020, bringing the total to 5416 in 2803 cities and towns. As of June 30, 2021, the bank's distribution network included 16291 ATMs and 5653 branches spread across 2917 cities and towns. This grew to 21683 banking outlets in 2022. During the year, it added 734 branches, bringing the total to 6342. At its meeting on April 4, 2022, the Board of Directors of HDFC Bank Limited approved a Composite Scheme of Amalgamation for the amalgamation of (i)HDFC Investments Limited and HDFC Holdings Limited, wholly-owned subsidiaries of Housing Development Finance Corporation Limited

(hereinafter, "HDFC Limited"); (ii) HDFC Limited with and into HDFC Bank; and (iii) other matters related thereto.

## ***1.7 PROFILE OF ICICI BANK***

According to consolidated assets, ICICI Bank is the largest private sector bank in India. ICICI Banking Corporation Limited, a subsidiary of the ICICI Group, was formed in 1994. ICICI Limited, a diversified finance and shipping financing lender, controlled 25% of the initial equity capital, of which ICICI owned 75% as of December 1996. ICICI Bank became an entirely owned subsidiary of ICICI as a result of the merger of SCICI and ICICI. On 10 September 1999, the name of the bank was changed from ICICI Banking Corporation Limited to ICICI Bank Limited. In an all-stock merger on March 10, 2001, ICICI Bank purchased Bank of Madura. ICICI Limited along with their wholly owned retail finance subsidiaries namely ICICI Capital Services Limited and ICICI Personal Financial Services Limited amalgamated with the Bank with effect from May 3 2002. Investitsionno-Kreditny Bank, sold its whole paid-up capital to the ICICI in May 2005, thus becoming a subsidiary of Bank as of May 19, 2005. Prudential ICICI Asset Management Company Ltd. and Prudential ICICI Trust Limited became the Bank's subsidiaries after the Bank purchased an extra 6% of their equity share capital from Prudential Corporation Holdings Limited in August 2005. The Bank and GTL Ltd., a provider of networking solutions, worked on a lease deal in June 2007 to lease out the call center facility at Mahape, valued at about Rs 100 crore, for a 25-year period. The number of branches and extension counters at the Bank expanded from 755 to 1262 in the 2007–2008 fiscal years, an increase of around 200 branches as a result of the merger with Sangli Bank. They further expanded their network of ATMs from 3271 to 3881. They introduced mobile banking, which made it possible to do a variety of banking operations using a mobile device. The Bank raised the number of its branches and extension counters from 1262 to 1419 during

the fiscal year 2008–09. A subsidiary of ICICI Prudential Life Insurance Company Limited, ICICI Prudential Pension Funds Management Company Limited was established on April 22, 2009. The Bank raised the number of its branches and extension counters from 1419 to 1707 during the 2009–2010 fiscal year. They also expanded their network of ATMs from 4713 to 5219. With effect from December 31, 2009, ICICI Wealth Management Inc., a division of ICICI Bank Canada, was dissolved. In a non-cash transaction in May 2010, the bank authorized the plan of amalgamation of Bank of Rajasthan Ltd with the bank through share swaps, giving the Bank of Rajasthan a value of around Rs 3000 crore. According to the amalgamation plan, the Bank of Rajasthan was merged with the bank as of close of business on August 12, 2010. On 23 January, 2014, The Export-Import Bank of Korea and ICICI Bank inked a contract for a USD 200 million Line of Credit (Korea Exim bank). During the meeting on October 30, 2015, The Board of Directors of ICICI Bank approved the sale of 9% of its subsidiary, ICICI Lombard General Insurance Company, to its joint venture partner Fairfax Financial Holdings Limited and after that ICICI Bank took around 64% of ICICI Lombard General Insurance Company, while Fairfax would take about 35%. On January 14, 2016, ICICI Bank declared a first for private sector banks in India as it had disbursed mortgage loans totaling more than Rs 1 lakh crore. On September 9, 2016, ICICI Bank announced that it had signed a subscription agreement to buy 10% of Resurgent Power Ventures Pte. With a view to increase the availability of affordable homes in the nation, ICICI Bank announced on May 15<sup>th</sup> 2017, that interest rates on home loans up to Rs. 30 lakh would be reduced by up to 30 basis points. On November 7, 2017, the ICICI Bank board of directors approved the sale of a portion of its shares in ICICI Securities in an IPO by ICICI Securities, subject to receiving the necessary permissions and market conditions. In 2017, the bank and its subsidiaries were providing working capital finance, commercial banking, project and corporate financing, insurance, retail banking, private equity investment and venture capital and other services.

As of September 30, 2017, ICICI Bank operated a network of 4856 branches and 13792 ATMs. There are ICICI Bank branches in 16 countries, besides India. The equity shares of the bank are traded on the B.S. E and the N.S.E of India Limited in India; while it's A.D.Rs are traded on the N.Y.S.E. It was recognized as being the first Indian bank to be listed on the NYSE. Through an initial public offering (IPO), the bank sold its 7% stake in ICICI Lombard General Insurance Company Ltd and its 20.78% stake in ICICI Securities Ltd during the 2018 fiscal year. As of March 31, 2018, the bank had 4867 locations in its branch network and 14367 in its ATM network.

During the fiscal 2020 year, the bank's core operating profit increased by 21.5%. In THE year 2020 (Covid-19 ) affected the loan growth of the bank. The bank raised their total assets from Rs 12387.94 billion to Rs 13772.92 billion by March 2020. At the end of March 2020, the bank's total number of branches and ATMs increased to 21012. The Bank raised their total assets from Rs. 13772.92 billion to Rs. 15738.12 billion at the end of March 2021. The consolidated advance grew from Rs. 7062.46 billion to Rs. 7918.01 billion at the end of March 2021. During the fiscal years 2021–2022, ICICI Lombard General Insurance Company Limited discontinued being a subsidiary and changed its status to Associate of the bank. At the end of March 2022, the bank had a branch network of 5418 branches and an ATM network of 13626 ATMs. As of March 31, 2022, the bank's total assets were Rs. 14112.98 billion. Another 152 branches were added during the year. The bank had 15 subsidiaries and 9 associate firms as of March 31, 2022.

### ***1.8 PROFILE OF AXIS BANK***

The third-largest private sector bank in India is Axis Bank Limited. One of the first of the new generation private sector banks, Axis Bank, started operating in 1994. In 1993, the Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC), Specified

Undertaking of Unit Trust of India (SUUTI) (then Unit Trust of India), National Insurance Company Ltd., The New India Assurance Company Ltd., The Oriental Insurance Company Ltd., and United India Insurance Company Ltd. all worked together to promote the bank. In the year 2001, Axis bank and Global Trust Bank (GTB) had a merger proposal to establish the largest private sector bank; however, both banks decided to drop the merger because of media concerns. The Bank received authorization to handle government business in 2003, including tax collection, handling expenditure-related payments for Central Government Ministries and Departments. It began operating its merchant acquisition division in December 2003. In 2005, the bank was able to raise \$239.3 million through the sale of GDRs. In the same year, they received Indian Banks Association "Outstanding Achievement Award" for their creative approach/s and IT infrastructure delivery skills. To promote credit cards and retail asset products, the bank established Axis Securities and Sales Ltd in December 2005. In October 2006, in order to manage equity investments and support startups with venture money, they established Axis Private Equity Ltd. In 2007; the bank once again raised \$218.67 million through Global Depository Receipts. They opened 153 new branches during the year, including 8 service branches/CPCs and 43 extension counters that were upgraded to branches. They also opened representative offices in Shanghai and new international offices in Singapore, Dubai, and Hong Kong. The Bank further added 143 new branches in 2007–2008, bringing the total to 651, including 33 extension counters that were upgraded /converted to branches. They also expanded new branches in Dubai. With effect from July 30, 2007, the bank changed its name from UTI Bank Ltd to Axis Bank Ltd in order to avoid confusion with other unconnected organizations with similar name. They added 831 new ATMs during the year, bringing the bank's total number of ATMs from 2764 to 3595. A representative office was established in Dubai. In January 2009, the bank set up Axis A.M.C to conduct the management of mutual fund business. In the year, 2009–2010, the bank added 200 more offices. In March 2009, they

opened their 1000th location in Bandra West, Mumbai. In September 2009, Axis Bank introduced its private banking division in the domestic market under the name "Privee" in order to serve the needs of extremely wealthy people and families by providing them with exclusive investment opportunities. In the year 2010, the bank introduced "AXIS CALL & PAY on atom", a new mobile payment method that can be done by debit cards of Axis Bank. AXIS Bank became the first bank in the nation to offer a safe IVR payment service using a debit card. In the year 2010-11, the bank opened 407 new branches. The Bank, which serves 921 centers overall, is present in every state and Union Territories with the exception of Lakshadweep. The bank's ATM network has expanded from to 6270. The bank also established a Representative Office in Abu Dhabi during the year. This was in addition to the already-existing branches in Shanghai, Dubai, Hong Kong, Singapore, and the DIFC (Dubai International Financial Centre). Axis Bank became the first Indian private sector bank to operate a branch in China when it announced the launch of its Shanghai Branch on January 8, 2014. On July 27, 2015 Axis Bank stated that it had finalized a deal worth \$200 million, a seven-year bilateral loan agreement with the Asian Development Bank (ADB) aimed at providing farmers in India with accessible agricultural loans. In an effort to increase its global reach, Axis Bank announced the opening of its representative office in Dhaka, Bangladesh, on November 22, 2015. On March 30, 2017; Axis Bank formed a strategic agreement with Wells Fargo & Company to provide seamless remittance services to their NRI customers from the USA. On July 5, 2017, Axis Bank announced its entry into the luxury bike loans market for 500cc and higher bikes. In order to boost trade with Latin America and the Caribbean, Axis Bank announced its partnership with Inter-American Investment Corporation (IIC) on July 11, 2017. As of March 31, 2019, bank had a nationwide network of 4050 branches, 11801 ATMs, and 4917 cash deposit machines. During the year 2019-20, The Bank issued and distributed 198728139 equity shares at a price of Rs. 2 per as part of a Qualified Institutional Placement Issue. Bank had a network of about

4500 branches, 17477 ATMs, and cash deposit machines as of March 31, 2020. In the year, 2020, it added 478 branches to its network. In addition to having approximately 11300 ATMs and cash deposit machines, bank had a network of 4594 branches as of March 31, 2021. During the fiscal year 2021, it expanded its network by 66 branches. As of March 31, 2022, the Bank had nine unlisted subsidiaries, one step-down subsidiary, and one associate firm. During the year, the Bank had a network of 4758 branches and 10990 ATMs & cash deposit machines. Axis Bank expanded its network by 164 branches in the year 2022.

### ***1.9 DEMONETIZATION***

The French were the first to use the term "demonetize" during the period 1850 -1855 AD. Demonetization is the process of eliminating a specific currency from use as a legal tender. Most of the economies in the world have done this, occasionally stating various reasons for doing so. The old currency is taken out of circulation at the start of the demonetization process and replaced with new forms of currency. Generally, the public has a window of opportunity to exchange their old coins and banknotes for the new ones before the old currency is formally phased out. A currency that has been dropped is no longer accepted as legal tender and is worthless. During the demonetization process, a country could start using new coins or banknotes or completely move to a new form of currency. However, demonetization is an extreme action that only infrequently occurs and, if done improperly, can lead to economic suffering and social turmoil. Sometimes, countries have to remonetize their defunct currencies to make them legal tender again.

### ***1.10 HISTORY OF DEMONETIZATION***

#### **THE UNITED STATES DEMONETIZATION, 1873(COINAGE)**

One of the first demonetization incidents occurred in the U.S.A, when the Coinage Act of 1873 ordered the replacement of the silver standard with the gold standard. This caused the money

supply to decrease, which in turn caused a five-year economic recession in the nation. Then, The Bland-Allison Act, which re-introduced silver as form of legal cash, was put into effect in 1878 as a result of the grave circumstances and coercion from silver miners and farmers.

### **INDIA DEMONETIZATION, (1946)**

Indian government restricted the extensively used Rupee 1000 value notes on January 12, 1946. The RBI authorities were not pleased with this, according to an article in the Reserve Bank of India's History. The then-RBI governor, C.D. Deshmukh, opposed this decision, but the government nonetheless moved along and passed an ordinance on January 12, 1946. By the end of 1947, notes worth Rs 134.9 crore had been exchanged out of a total of Rs 143.97 crore in high denomination notes. As a result, notes worth Rs 9.07 crore were no longer in use or not exchanged. According to reports, this operation ended up being more of a currency conversion drive because the government was unable to generate a significant profit in the cash-strapped economy at the time.

### **USA DEMONETIZATION, (1969)**

Another demonetization incident happened in U.S.A, when Richard Nixon was president in 1969. To stop the circulation of black money, he declared all currencies valued at \$100 or more to be invalid in U.S.A. That action was successful and was marked as the beginning of the growth of the American banking system.

### **INDIA DEMONETIZATION, (1978)**

To eliminate the illegal gain (money) in the nation, the then-Janata party coalition resolved to discontinue the use of the Rs. 500/1,000/10,000 notes. That time, it was assumed that the corrupt former government leaders were the target of the action. General public was given some time to swap high value currency. Higher value currency made up a minor portion of the total money supply at that time, so neither the money supply nor the costs of essentials were significantly affected.



### **GHANA DEMONETIZATION, (1982)**

In the year 1982, the Rawlings ministry decided to demonetize the fifty-cedi note in order to reduce tax escape and get rid of surplus liquidity. That exercise was a total failure since people began investing in overseas currency and physical assets. In addition, the general public was disappointed with that financial system, and a new black money market emerged.

### **NIGERIA DEMONETIZATION, (1984)**

In an effort to make the earlier notes useless, the government of Muhammadu Buhari started the production of new currency notes in new shades. The movement sought to stabilize an overextended and indebted economy. The effort was a total failure.

### **SOVIAT UNION DEMONETIZATION, (1991)**

The 50- and 100-ruble notes were pulled out of circulation in January under Mikhail Gorbachev's direction in an effort to combat the black market. About one-third of the money in circulation was made up of the notes that were deleted. Several former Soviet nations, including Kazakhstan and Ukraine, were negatively impacted, causing economic disruptions. As the economy began to drastically slow down then the public started to lose trust in the government. Demonetization was not successful there.

### **AUSTRALIA DEMONETIZATION, (1996)**

The government of Australia moved all paper-based notes to improve the security measures and reduce the amount of illegal money in the economy. Durable polymer-based notes of the same denomination were used to replace the demonetized paper notes. The change extended the life of the bills successfully and this contributed to Australia being a business-friendly nation.

### **EUROPEAN UNION DEMONETIZATION, (2002)**

The demonetization of the existing currencies of the twelve member nations of the European Union was mandated by the introduction of the single currency, the "Euro," on January 1, 2002.

In this process, around eight billion notes and 38 billion coins were dispersed. A significant portion of the 107 billion national coins and nine billion national notes were collected simultaneously. This effective currency switchover was the product of early planning that began in mid-1998 and extensive public notification.

#### **NORTH KOREA DEMONETIZATION, (2010)**

In North Korea, Currency adjustments were made by the Kim Jong-II government to cease the illegal market and boost the economy. That decision disappointed the government because people fiercely opposed it and also the cost of necessities rose.

#### **ZIMBAWE DEMONETIZATION, (2015)**

In the year 2015, the government decided to switch the Zimbabwe dollar for the American dollar to balance the nation's hyperinflation-stricken economy. This action caused most wealthy individuals to see a decrease in the value of their accumulated savings, which increased dissatisfaction among people. Exports suffered greatly as a result of the loss of competitiveness, which ultimately had an impact on the economy. It turned out to be a mistake that only made the hyperinflation worse.

#### **INDIA DEMONETIZATION, (2016)**

On November 8, 2016 Government of India announced that Rs 500 and Rs1000 banknotes would no longer be legal tender. Total worth of demonetized currency amounted to 15.4 trillion and that was around 86.9% of total currency in circulation. Government also declared the issuance of new ₹500 and ₹2,000 banknotes in exchange for the old demonetized currency notes. They allowed people to deposit all of this demonetized money with the banks for around two months. The government said that these currency restrictions were necessary to achieve three main goals, to deter black money, to remove counterfeit money from the economy, and to reduce the amount of cash transaction to encourage a cashless society. As per government,

new notes came with certain unique security features. During this period, the Indian government launched a number of assistance programs, such as the Pradhan Mantri Garib Kalyan Yojana (PMGKY), which was unveiled on December 16, 2016 as the prime minister's poor welfare programme. People started operating their dormant accounts also. This action deters tax evaders from laundering their illicitly acquired wealth. Nearly all organized and unorganized industries were impacted by the immediate fire of demonetization, which caused a frenetic cash crisis in the economy. It created various economic disruptions and instability across the country. Due to the liquidity crisis in the market, people had to wait in queue to deposit and withdraw money from banks. The decision had a negative impact on the tourism and real estate sectors because they needed cash to operate their businesses. Due to a short-term liquidity issue on the market, customers switched to digital banking services. It saved time and money of both banks and customer. During that period, it increased the burden on bank employees due to long working hours perhaps banks were not ready to handle this sudden change. Also, there were several discussions, accusations, and protests against the decision to implement demonetization. Despite of this, the general population supported the government decision.

### **1.11 POSITIVE IMPACT OF DEMONETIZATION OVER BANKS**

**LIQUIDITY:** Demonetization increased cash deposits in the banks. There was an excessive cash inflow of Rs.500 and Rs.1000 in the banks due to which size of deposits significantly increased and this liquidity enhancement remained with the banking sector even next year after the above-mentioned step. It also helped banks to reduce their high-cost deposits and increased their current account and savings account (CASA) ratio.

**PROFITABILITY:** After demonetization as public sector banks deposits increased, they invested their excess funds in government bonds. It was assumed that return on bond investment would increase 15 to 20 percent to banks earnings. Banks received around Rs 2

lakh crore in the span of 42 days only after the currency ban and thus the cost of new borrowings were reduced for the government. Besides this, people started operating their dormant accounts which would give profits to Banks. New bank accounts were increased in rural and urban area.

**E BANKING:** After the problem of cash shortage, people moved to e- banking. Young generation, educated people started paying online for goods and services after demonetization. Some feedbacks from Payments companies were that online transactions in urban area were double in the two years since demonetization. Public came into the habit of using cards, e-banking and phone wallet. E-banking saved banks and customers time.

### **1.12 NEGATIVE IMPACT OF DEMONETIZATION OVER BANKS**

**SERVICES:** Banks could not execute other functions as banks were fully involved in the exchange of prohibited currency notes. They were unable to provide other banking services properly.

**WORK LIFE BALANCE OF BANK EMPLOYEES:** Demonetization made employees work harder and put more mental burden on them. Due to this excessive operational activity, bank employees' work-life balance was impacted.

**100% CRR:** After demonetization banks experienced surplus deposits, RBI announced 100% CRR on new deposition in banks. Hundred per cent CRR on incremental deposits means that banks were unable to get any profit on Rs 3 lakh crore deposits for fifteen days.

**LENDING SERVICES:** As primary work of banks was to exchange notes, so that time they were unable to provide lending service.

**ATM TRANSACTION CHARGES:** It was decided that banks would not take ATM charges for transactions. A customer was permitted at least five free transactions per month from ATM. Banks would charge Rs 20 beyond the permitted transactions. The waiver of ATM charges means bank had to bear loss of Rs 20 in every transaction

