CHAPTER :- 5

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5.1Introduction

Based on the data examined in Chapter Five, this chapter offers an extensive debate. It has four main parts: a summary of the results, conclusions, suggestions for more research, and recommendations.

Non-Int. Income has become a crucial aspect of bank profitability and risk control in the changing world of financial inter mediation. Financial institutions have mostly depended on interest-based income in the past. But as economic instability has emerged, default rates have risen, and interest margins have shrunk, there has been a strategic turn toward income stream diversification—especially via non-Int. Income sources.

Banks' steady income stream from sources including service fees, fines, asset disposals, and property leasing is less sensitive to the cyclical character of financial markets. Non-Int. Income helps banks to maintain revenue. Unlike interest revenue, it provides companies more pricing flexibility since it is frequently free of direct government restrictions. Particularly big and effective financial institutions have used scale to produce significant non-Int. Income, most notably through transaction fees, ATM charges, wealth management services, and combined financial products.

Such revenue has traditionally y come from fundamental banking operations including letters of credit, safekeeping, trust services, and checking. But banks have gradually broadened their holdings to incorporate cutting-edge streams including credit card securitization, digital banking charges, assurance, mutual fund distribution, mobile well services, and fin tech collaborations. Rising financial inclusion, regulatory changes promoting product innovation and diversification, heightened market competition, and developments in digital technology have All contributed to this strategic shift.

A future-oriented financial institution is now judged not just on how much Int. Income it can make but also on how well it turns its ecosystem into money-making

opportunities through fee-based services. Well-run banks maximize charge structures based on data-driven insights, use cross-selling techniques, and use customer relationship management (CRM) tools to deepen interaction and raise non-Int. Income ratios. Non-Int. Income forms the foundation of profitability in economies where religious or ethical ideas limit interest-based financial services, such in Islamic banking systems.

Modern banking management therefore has to strike a balance between non-Int. Income and interest generating policies. To increase resilience and guarantee long-term sustainability, one should stress financial product design, digital transformation, and innovation as well as financial product design.

5.2 Summary

The demonetization drive India started on November 8, 2016, changed the country's financial scene. The goal of the policy—which aimed to reduce black money and fake currency as well as advance a move to a digital and cashless economy—was to invalidate notes of high value. Although the change had a direct impact on banking operations and liquidity, it also had a major effect on the income structure of (PSBs), especially their non-fund-based income—income from fee-based services as opposed to conventional Int. Income.

The research looks at how demonetization affected Indian PSBs' non-fund-based income (also known as non-Int. Income). This income comes from things like remittances, ATM transactions, service charges, commissions, forex trading, guarantees, letters of credit, and wealth management products. Following demonetization, a dramatic surge in digital transactions, cash deposits, and client on boarding caused temporary increases in fee income for several banks. The compelled digital adoption and more formalization of financial services also presented chances for more long-term income sources.

Still, the results varied among different universities. Some banks benefited from the change, but others had operational issue, customer service difficulties, and a brief drop in transaction-based fees because of early confusion and less economic activity.

With statistical tools to evaluate the importance of noted changes, this study examines these dynamics using financial statistics from chosen PSBs before and after demonetization. Emphasizing the increasing importance of non-Int. Income in

guaranteeing financial stability and resilience, the results seek to help to explain how macroeconomic policy initiatives might modify income models in the banking sector.

The study uses paired t-tests and trend analysis to evaluate variations in non-interest revenue ratios for chosen PSBs, including SBI, BOB, Union Bank, and others, examining pre- and post-demonetization (2011–2021) financial statistics. It looks at whether banks' income outside of Int. Income was much better because of the growth in digital banking, fee-based products, and services from other companies.

Initial data indicate a modest but statically significant rise in NFBI shortly following demonetization, mostly motivated by service charges, ATM use fees, and digital transaction volumes. The increase nonetheless differed among institutions relying on their fee-pricing policies, client base, and digital infrastructure.

Demonetization, according to this study, spurred income diversification and encouraged PSBs to pursue more non-fund-based sources of income. Particularly in light of regulatory or economic shocks, it underlines the strategic relevance of NFBI in enhancing financial resilience and lowering reliance on conventional interest revenue.

5.3 Findings

Here, are some common findings of impact of demonetization on NFBI of PSBs.

Deposit Surge: An Abrupt One in Short Term

For PSBs, demonetization briefly increased bank deposits and improved transaction volumes and service charge income.

Increased Digital Transactions:

The policy sped up the use of digital banking, which led to more money from fees for digital services like NEFT/RTGS charges, ATM usage, and mobile banking services.

Rise in Service Fees:

PSBs raised or implemented new service fees (such as transaction fees, minimum balance penalties), which helped to boost non-fund-based revenue.

Differences Among Banks:

Non-fund income varied between banks depending on their level of technology preparedness, geographical reach, and methods of customer interaction.

Restricted Long-Term Development:

Post-demonetization (2016–2018), there was a brief surge in NFBI, but in the following years this increase was not consistent throughout All PSBs.

Fee-Based Services Developed Value:

Demonetization underlined the strategic importance of spreading income streams outside of interest revenues, therefore certain banks increased their investment in third-party product sales (e.g., insurance, mutual funds).

Operational Burden Offsets Gains:

Operational issues (such as cash management and customer service) used resources in the first aftermath, somewhat counterbalancing the benefits from higher non-Int. Income.

Boost in Financial Inclusion:

Under programs like Jan Dhan Yojana, more new accounts opened, which increased the number of customers. This set the stage for the future NFBI by giving it chances to cross-sell.

Change That Is statically Significant:

The results of paired t-tests revealed a statically significant rise in NFBI ratios for several PSBs during the demonetization era (2016–2018), therefore validating quantifiable influence.

Shift toward income diversification:

For PSBs, the occurrence marked a turning point that made them re-evaluate their business strategies and drive them to enhance fee-based service offerings as a shield against hazards linked to lending.

5.3.1 Findings From Ratio Of NII To Total Income Of The Banks Under Study

<u>Important Differences Among Banks:</u>

The F-ratio between banks (16) is higher than the critical value, suggesting a noticeable variation in the non-Int. Income ratios among several banks. This indicates that, maybe as a result of better fee structures, digital adoption, or service diversification, some banks are more effective at producing non-Int. Income than others.

Significant Year-Wise Differences Among Banks:

The F-ratio for banks (11.86) is also higher than the threshold, which points to a big shift in ratios of non-Int. Income over time. This suggests that in certain years, especially between 2016 and 2018, events like demonetization clearly affected the income profile of banks.

Effects of Demonetization Unquestionably:

especially for banks like PNB (38.97%) and Canara Bank (15.92%), which show a clear impact of demonetization in driving up service-based income, a clear surge in non-Int. Income ratios is seen in 2016–17 and 2017–18.

Stabilizing Following De-Monetizing:

For several banks, ratios remained higher than pre-demonetization levels in later years (2018–2021), but the abrupt rises seen in 2016–2018 were not sustained continuously, pointing to a short-lived increase rather than a permanent structural change for All banks.

Unique Strengths of Banks:

Higher non-Int. Income ratios recorded by SBI, PNB, and Canara Bank point to good performance in fee-based services. UCO Bank and P& S Bank, on the other hand, had lower ratios indicating a lack of income source diversification.

An ANOVA's General Result:

Both theories are disproved, therefore supporting the effect of policy changes like demonetization and strategic variations between firms by confirming performance differences across banks and across time.

5.3.2 Findings From Ratio Of NII To Total Assets Of The Banks Under Study

Big Variance Among Banks:

The F-ratio of 5.26 among banks is higher than the critical value, which points to a statically significant variation in non-Int. Income to total assets ratio across several banks.

This demonstrates that banks differ in their efficiency or approach to producing fee-based revenue in relation to their asset size.

Year-Wise Variation Within Banks is Significant:

At 14.73, the F-ratio inside banks is likewise higher than the threshold level, suggesting a notable variation across time in this ratio inside every bank. This implies that macroeconomic developments like demonetization over time impacted banks' capacity to generate income from their current holdings.

Demonetization's Effects Noticed:

For several banks, including PNB (38.97%) and UCO Bank (19.58%), a clear rise in the ratio in 2016–17 and 2017–18 indicates the favorable short-term impact of demonetization on non-Int. Income performance.

Performance After Demonetization Stabilized:

Most banks displayed a moderate but constant level of non-Int. Income in the years after demonetization (2018–2021), indicating a move toward more varied and stable revenue sources.

Bank-Specific Effectiveness:

SBI, PNB, and Canara Bank's consistently better non-Int. Income to total assets ratios point to better use of assets to generate fee-based revenue. Conversely, P& S Bank and UCO Bank registered somewhat lower ratios, suggesting limited ability in this respect.

Rejection of Either Null Hypothesis:

Since both F-ratios are significant, the study disproves both null hypotheses and shows there are Big variations among banks, and Over years, major variations in their non-Int. Income to total assets ratio.

5.3.3 Findings From Ratio Of NII To Investment Of The Banks Under Study

Important Bank Differences:

At 45.83, the F-ratio between banks is far beyond the threshold. This points to a very important variation between banks in how well they can get non-Int. Income from their investments. Certain banks, including SBI, Canara Bank, and PNB, regularly posted better ratios, indicating effective use of funds for fee-based income. P&S Bank and UCO Bank, on the other hand, had lower ratios, which could mean that their strategies weren't as good or that they didn't have as many chances to make money from their investments.

Important Year-Wise Variations:

Banks' F-ratio of 5 exceeds the critical level. This shows that there were big differences between the years, which means that banks' ability to make money from things other than interest changed a lot over time. From 2016–17 to 2017–18, ratios for several banks (such as Canara Bank, BOI, and PNB) climbed, probably as a result of the good effects of demonetization, which increased transaction volumes, asset management operations, and service fees.

Demonetization's Impact Visible:

For several banks, a modest ratio rise during and after demonetization (2016–2018) shows that banks used the greater financial activity and liquidity to profit from investment-linked non-interest services.

Post-Demonetization Performance:

For most banks, the ratio leveled off in the years after 2018. A few, like Canara Bank (6.12%) and P&S Bank (3.65%) in 2020–21, showed strong performance, which shows that they have better asset management and diversification strategies.

Rejection of Either Null Hypothesis:

Since both F-ratios are statically significant, the research disproves the null hypotheses, thereby verifying: Banks differ quite a bit and Over years, there are

notable variations in the degree to which banks generate non-Int. Income from their investment base.

5.3.4 Findings From Ratio Of NII To Owner's Fund Of The Banks Under Study

Important differences among banks:

With a value of 31.57, the F-ratio between banks is considerably higher than the critical value, which points to a statically significant variation in the ratio of non-Int. Income to owner's fund across the banks. This shows that some banks have been better at using their money (which comes from the owner) to make money that doesn't come from interest than other banks.

SBI, for example, has the highest ratios—41.29% in 2011–12 and 40.80% in 2020–21—while P&;S Bank stays very low throughout the period, indicating significant variations in strategic focus and operational efficiency.

Year-wise variation among banks is quite high:

With a F-ratio of 5.89, banks also exceed the threshold, which points to notable annual variations inside banks. This implies that over time, significant variations in how effectively banks employed their owner's funds to generate fee-based income were brought about by outside influences such as demonetization and digital reforms.

Unambiguous impact of demonetizing:

Many banks (e.g., Canara Bank up to 27.34%, BOI to 22.10%, IOB to 24.53%) saw a clear growth in 2016–17 and particularly 2017–18, so stressing the favorable short-term effects of demonetization on income generation through fees and services. For some banks (e.g., BOM at 50.10% in 2019–20, SBI at 40.80% in 2020–21), post-demonetization momentum stayed high in the years that followed, therefore showing long-term advantages for banks with strong digital capabilities.

- Particular Bank Performance Trends:

SBI, BOM, Canara Bank, and IOB are top performers in terms of effectively turning owner's equity into non-Int. Income .Under performers like P& S Bank and UCO

Bank show little growth over time, suggesting inefficiency or inadequate income source variety.

Rejecting Both Null Hypotheses:

Given the statistical significance of both F-ratios—31.57 and 5.89—the study disproves both null hypotheses: Banks differ significantly in the ratio of non-Int. Income to owner's fund, and Within each bank, this ratio also varies greatly year to year.

5.3.5 Findings From Ratio Of NII To Long Term Fund Of The Banks Under Study

Variations Among Banks:

With an F-ratio of 5.86 between banks, which is more than the table value (usually around 2 at 5% significance), there is a big difference in how much non-Int. Income makes up of long-term fund ratios between different banks.

Changes Inside Banks (Over Years):

With 13.04, the F-ratio within banks is also quite high, which implies that for particular banks the ratio has altered noticeably across time.

Post-Demonetization rise:

From 2016–17 onwards, several banks exhibit a clear rise in the ratio, suggesting a good effect of demonetization on their non-interest revenue in relation to long-term funds.

Top Banks:

Reflecting improved usage of long-term funds in producing fee-based revenue, SBI, Canara Bank, and Indian Overseas Bank maintained higher ratios consistently.

Poorly Performing Banks:

P&S Bank and UCO Bank have very low ratios, which shows that their non-Int. Income hasn't grown much compared to how much money they have in the long run.

General Impact:

The exam shows that year-wise the effect differed greatly and that demonetization had a different impact benefiting some banks more than others.

5.4 Suggestions

1. Provide a Clear Definition of Non-Fund Based Income

- Clarify the elements: This includes earnings from commissions, fees, service charges, locker rentals, foreign exchange services, and underwriting activities.
- Differentiate from fund-based income: Highlight that this does not pertain to lending or earning interest.

2. Set Up a Comparison Before and After Demonetization

- Select an appropriate period (for instance, 2011 to 2021).
- Contrast the years before demonetization (2011 to 2016) with those following it (2016 to 2021) to evaluate trends in non-Int. Income.

3. Employ Strong Statistical Methods

- Utilize two-way ANOVA to assess:
- Differences among various banks.
- Changes over time (across years).
- Implement paired t-tests to examine specific values before and after demonetization.
- Incorporate correlation analysis between non-Int. Income and other factors like total deposits, digital transactions, etc.

4. Categorize Banks By Size or Business Model

- Organize banks according to size (large, mid-sized, small PSBs) or performance categories.
- This assists in determining if scale had an effect on the impact of demonetization.

5. Examine Key Performance Indicators (KPIs)

- Investigate the impact of demonetization on:
- Proportion of fee-based income relative to total income
- Non-Int. Income as a percentage of owner's funds
- Non-Int. Income compared to long-term funds
- Monitor the growth in digital banking services that aid in generating non-fund income.

6. Differentiate Between Temporary and Sustainable Effects

- Explore whether the increase in non-Int. Income post-demonetization was fleeting (driven by high cash deposits) or if it resulted in lasting structural changes, such as:
- Expansion in digital transactions
- Heightened collections of service fees
- Transition to cashless banking.

7. Analyze Modifications in Policy and Fee Frameworks

- Investigate if banks revised service charges, ATM fees, digital banking fees, and others after demonetization.
- Examine annual reports or RBI circulars for policies that might have influenced fee income.

8. Evaluate Technological Embrace

- Assess how banks' investments in digital infrastructure (UPI, mobile applications, POS devices) after demonetization enhanced non-fund income.
- Connect the rise in non-Int. Income to the growth of digital services.

9. Incorporate Qualitative Insights

- Utilize interviews or analyses from bank annual reports or RBI documents to enrich your findings.
- Investigate management approaches and bank innovations during this time frame.

10. Propose Policy Suggestions

- Based on the findings, recommend:
- Methods to bolster non-fund income sources.
- Policies aimed at diminishing reliance on interest earnings.
- Support initiatives for digital financial services to sustainably boost fee-based income.

11. Recognize Limitations

- Acknowledge data constraints (if limited to secondary data).
- Mention potential lag effects (the impact of demonetization may take time to manifest in financial results).

12. Opportunities for Further Investigation

- Expand the research to include PB or cooperative banks for comparative purposes.
- Examine impacts on a state or regional basis.
- Incorporate post-COVID influences on trends in non-fund income.

5.5 Contribution Of The Study

5. 5. 1 Contribution to the Society

This research aids the public in grasping the importance of significant economic changes, like demonetization, on banking services and their associated fees.It highlights the growing importance of non-loan income sources, such as service fees and transaction charges, which have a direct impact on consumers. By examining the changes that occurred after demonetization, this study promotes enhanced financial understanding and confidence in digital and formal banking options.

5. 5. 2 Contribution to the Knowledge

This research adds to academic knowledge by providing real-world evidence about the effects of demonetization on non-loan income in various public sector banks. It addresses a research gap by concentrating on non-Int. Income, which has received less attention when compared to loan-based income in India's banking industry. Employing statistical methods like Two-Way ANOVA adds depth and encourages future scholars to utilize quantitative techniques for analyzing economic policies.

5. 5. 3 Contribution to the Industry

The results aid PSBs in evaluating how their non-loan revenue sources were affected during a significant policy change. It helps banking institutions pinpoint and improve alternative revenue options to decrease reliance on earnings from interest.

The study provides valuable information for bank executives, strategists, and regulators to develop flexible business models that maintain revenue even in times of financial strain or economic instability.

5.6 Conclusion

The demonetization initiative that took place in November 2016 represented a crucial moment in the monetary landscape of India's economic development. This research aimed to assess how this move affected the (non-interest) earnings of PSBs, which encompass income from fees, commissions, service charges, and other earnings derived from transactions. Utilizing ratio analysis alongside statistical methods such as paired t-tests and two-way ANOVA, the research examined the trends and changes in non-Int. Income both before and after the demonetization across a number of prominent PSBs

The results suggest that demonetization resulted in a temporary increase in non-fund income for several public banks. This increase was primarily driven by a rise in deposits, higher transaction activity, and a shift towards digital transactions, All of which led to greater service fees and commissions. Nonetheless, this effect was not

consistently maintained over the years. While some banks demonstrated enhancements in their non-Int. Income after demonetization, others reverted to the levels of performance they had before the event, indicating that the impact was not uniformly revolutionary throughout the sector.

The statistical evaluation revealed that there were notable variances in non-fund income performance among different banks and across the years analyzed. However, it is important to note that these variances could not be exclusively linked to demonetization. Elements such as the quality of digital infrastructure, customer service, the implementation of policies, and regional banking reach also played a crucial role in shaping the results. Therefore, while demonetization afforded a temporary uplift, achieving a lasting increase in non-fund income necessitates careful planning and investment in technology, products, and the methods of service delivery.

In summary, the research highlights that while unexpected policy changes like demonetization can temporarily impact income patterns in banking, achieving sustained growth in non-fund income requires reform across institutions, innovation in finance, and a focus on customer-oriented strategies. For PSBs to enhance their income stability and profitability, they need to move beyond conventional approaches and concentrate on developing strong non-interest revenue streams.