Role of digital-baking with special reference to demonetization

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Abstract: After the effect of demonetization, digital cash has been the hotcake among the citizens of India. The demonetisation that happened it will not only have economic impact but also social and political ramifications, both from immediate and long-term perspectives. Our system was not fully equipped with digital cash system and informal system only cash transaction was done. At the time of demonetization electronic infrastructure was not fully developed if the infrastructure was fully developed before doing it than the impact would be less on different sectors. This paper tries to find out the challenges which are facing by the banking sectors that their customers are not using e-banking in daily economical activities also try to find out how these challenges convert into opportunities.

Keywords: Digital Banking, Demonetisation, Digital cash, Digital payment.

Introduction:

The Indian government’s decision to demonetize currency notes of Rs500 and Rs1,000 was necessitated by the increase in difficult-to-tell counterfeit notes and a desire to curb black income generation as well as eliminating a part of existing unaccounted wealth held in these high-denomination notes. The authorities’ intent and action are indeed praiseworthy but need to be followed up with subsequent actions to remain effective. These actions relate mainly to structural changes to make the system more rules-based—reduce the discretionary powers of the bureaucracy, make the tax system simple, transparent and less discretionary, make a greater effort to include the informal sector and ensure effective and quick dispensation of justice. Meanwhile, the impact on the economy will most certainly be negative and could reduce potential gross domestic product (GDP) in the medium term and consequently government revenue.

Several businesses transact in cash and with demonetization they may become cash-strapped, hurting business—and consequently revenue, employment, consumption and investment. The informal sector in India employs more than a majority of the workers and most transactions are in cash. Disruption to this system could endanger the employment and In the short term, there will be an increase in bank deposits as individuals deposit their high-denomination notes, bringing down yields. This may, however, not sustain as people may have a desire to hold and move back to cash in the new high-denomination notes that will become available over time. livelihood of weaker sections of society.

Literature Review:

Suhas, D (2018) Now a days contribution of Electronic banking towards economic development plays a crucial role in developing countries like India. Banks are no longer restricted to traditional banking rather it is shifted to the virtual banking system. Customers are experiences more feasible in banking operations because of Information technology. The banks are adopting IT-enabled tools and techniques for banking
operations which improve in offering quality service to the customers. In traditional banking customers has
to visit bank branches to avail banking services. Now with the ATMs, Internet banking, Mobile banking and
Information Technology-enabled services are replacing the traditional method of service. In the recent days
banks are concentrating on value-based service through E-banking.

Mishra (2011) delivered a useful advice to safeguard the safety of internet-based transactions (IBT). The
customer of the banks should not reply to any SMS, calls or Emails, requesting for password and not to
connect on any link for banks website. E-Banking has arisen from such an advanced improvement.
Kamakodi et al. (2008) expressed that an extensive gap exists in human service in Indian banking while IT-
based facilities are beyond the expectations. Qureshi T M, Zafar M K and Khan M B (2008) evaluated the
customer acceptance of online banking study concludes that majority of customers are accepting online
banking culture because of favourable factors and usefulness, security and privacy. Uppal R K (2010)
expressed in his research, ATMs is the most effective while mobile banking does not hold a strong position
in public sector banks, Mobile banking customers are also the highest in E-Banks which have a positive
impact on net profit and business per employee. Mishra (2011) delivered a useful advice to safeguard the
safety of internet-based transactions (IBT). The customer of the banks should not reply to any SMS, calls or
Emails, requesting for password and not to connect on any link for banks website. E-Banking has arisen from
such an advanced improvement. Zamdi et al (2013), studying 56 countries over 2008-12, calculate that USD
983 billion were added to their cumulative real GDP because of increased card usage. Among the emerging
economies, India at a lower level of 0.047%. Dhananjay B and Suresh Chandra B (2015) expressed that
retail electronic payment system has progressed in the recent years. The creation of NCPI set the stage for
the development of Electronic payments. In this ratio of electronic clearing grew from one percent to three
percent.

Chakravorti, S, Kobor E (2002) Electronic banking has attracted interest from policy makers, researchers
and bankers. Retail payments have assumed importance in the backdrop of rapid technological changes,
influence of market forces and regulatory developments. Efforts are being made to make retail payments
affordable and integrated. Both individual country and banks cope up with growing challenges and
opportunities in the area of regulatory changes, increased competition, enhanced role of non-banks and
technological advances. Retail payments contribute in improving relationship between bank and retail
customers and remains anchor for banking services, which includes savings, credit and other services

Digital cash and online transactions in the current market scenario have a great effect on e-banking and
digital banking .E-banking comprises mainly of electronic funds transfer and usage of online banking
services. Electronic banking was offered by the international banks initially since flow of digital cash was
not predominant in the Indian market until the advent of demonetization .E-Banking plays a major role in the
present banking functionality .Electronic banking is inferred to be safe and secured, compared to physical
banking-Banking ensures qualitative, on the banking operations compared to traditional banking .However
, it has its own limitations and challenges when we talk about security, on the contrary .The discussing
throughout the paper revolves around the challenges that Indian banks are facing in term of e-banking,
opportunity to increase awareness and measures adopted for safe and secure e-banking .The paper further
tries to discuss some best e-banking practices that are prevailing in the world. This paper also find out how
the paper less currency use could be increase by using E-banking and what are challenges how to solve these
challenges.
Size of impact on the economy

India’s GDP is $2,000 billion (Rs 125 lakh crore) and estimated parallel economy is 23 percent, which makes it about Rs 28 lakh crore. A large percentage of this amount is divided in real estate, gold, and cash. Real estate accounts for more than 50 percent and the rest 50 percent is equally divided between cash and gold. Around 68 percent of that cash is kept in denominations of Rs 500 and Rs 1,000 notes. A back-of-the-envelope calculation shows that Rs 3 lakh crore or $45 billion will flow into India’s white economy, which is equivalent to GDP of more than 100 countries!

Effect of demonetisation:

- Many people don’t know about the demonetisation what should they do. They face lots of problem. Due to this some people may die.
- Labours worked at daily wages but they had no money to buy food. So they have no options to buy food and last they lost their jobs also.
- Suffocation also leads to death because people gathered in bank for exchange money.
- Many billionaires/millionaires had a good chance to change black money into white money and lots of problem faced only common people.
- Low-income people have been impacted as their payments are delayed.
- Some people may commit suicide.
- Impact on Indian economy.

Impact of demonetisation on Banking sector

A study by Bhupal Singh and Indrajit Roy, RBI directors from the monetary policy department and department of statistics and information management, published showed that the excess deposits accrued to the banking system due to demonetisation range between Rs 2.8-4.3 trillion. “Excess deposit growth in the banking system during the demonetisation period (i.e., November 11, 2016 to December 30, 2016) works out to 4-4.7 percentage points. If the period up to mid-February 2017 is taken into account to allow for some surge to taper off, excess deposit growth is in the range of 3.3-4.2 percentage points.

The liquidity boost resulting from the demonetisation announcement on November 8, 2016 has stayed with the banking sector a year after the event, helping banks reduce their high-cost deposits and boosting their current account and savings account (CASA) ratio.

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.

Design of Digital Payment Wallets

According to “Sanatani” These digital payment wallets are available in two versions—mobile applications and websites. Over the course of time, such mobile applications have gained widespread popularity. The number of smartphone users in India is estimated to hit 337 million by the end of 2018. The number of smartphone
users in India would reach 490.9 million by 2022. Between 2017 and 2022, the number of smartphone users in India will grow over 60%. It is no surprise that such an ever-increasing user base is now increasingly drawn to these digital payment wallets. The User Interface of these Wallets are simple and easy to use. Navigation through different options can be done without much training. The customers can choose their language (to operate the apps) from a wide list of languages. This is done keeping in mind the rural and the senior citizens. This would make it easier for them to use, operate and become familiar with these types of wallets. The aesthetics of these digital platforms are easy on the eye and very carefully placed, such that the users are drawn to the right options.

Some design features of these websites include:

- They avoid bad requests
- They combine external CSS
- They parallelize downloads across hostnames
- They minimize request size
- They also minimize DNS lookups

Choosing between the different payment methods

With so many digital wallets that have now come into the Indian market, people now have a wide variety of options to choose from. Some of the many example include:

- BHIM (Bharat Interface for Money) launched by the Indian government
- Paytm
- MobiKwik
- FreeCharge
- Oxygen Wallet

Also, along with these digital wallets customers have other online payment options available like:

- Debit Card
- Credit Card
- Net Banking
- Mobile Banking
- NEFT
- RTGS [7]

**Benefits of using digital payment methods**

- Transactions done digitally are traceable, and customers can be accounted for such transactions. This is useful for the detection and eradication of black money.
- It is convenient, quick and efficient.
- It lets you stay in control about when you pay and the amount you pay. You have the option to cancel the transaction right before the payment is done.
IT will reduce real estate prices because of curbs on black money.

It will place universal availability of banking services to all as no physical infrastructure is needed other than digital.

There will be greater efficiency in welfare programmes as money is wired directly into the accounts of recipients.

Reduced cost of printing notes, instances of their soiled or becoming unusable, counterfeit currency.

Reduced costs of operating ATMs.

Speed and satisfaction of operations for customers as no delays and queues, no interactions with bank staff required.

It saves paper, and thus helps save the environment.[8]

**Threats associated with digital payment:**

Even after the burgeoning growth in the digital payment sectors, many are still wary of the existing and the upcoming technological advancement.

**Security issue:** With the advent of demonetization, many people were downloading and using various digital wallets applications. Paytm reportedly had around 7 million new users in a day. With such a spike in the digital wallet community, there are many hackers looming around. Moreover, these wallets are also operated through the mobile network, which is least secure method. Unlike credit/debit cards where the personal details of the customers are shielded by the bank, these wallets have no such security. Competent hackers can get hold of the valuable information on the phone, which possesses a serious risk to the consumers. [9]

The security concerns also extend towards net banking and using debit and credit card online. Not all payment sites are encrypted, and consumers should decide wisely upon using plastic money online. Card details are to be produced only at certified and valid websites and applications, to reduce the risk of fraud happening. Using public wi-fi to make any sort of digital payments is never safe. One should always try to make transactions over a safe, private wireless network. Using a Virtual Private Network (VPN) connection is one of the better practices to keep the data secure.

• Such digital payment methods are not suitable enough to make transactions for a small amount. -10 Lays.[6]

• With digital payment systems, there may be limits set on the number of transactions and the amount dealt with in a day. While this may be useful as a security measure, some might think of it as cumbersome. [6]

• With net banking systems, users need a username and password to do their transactions. Weak passwords can easily be hacked, which puts the consumer’s money at risk.[6]

• Some electronic digital transfer methods charge an added convenience fee which annoys a lot of users.[6]

**Conclusion:**

Digital payment system after demonetisation increase because after demonetisation there is compulsion to use digital payment mode at various point of sale .It produce confidence among the users of digital payment .Users are more comfortable towards digital payment .Many software are available in the market which make it easier for users of digital payment .Introduction of demonetisation affected many industries and working class people due to users require smart phones or laptop with internet therefore to use the digital
technology and digital cash there is a involvement of cash. In many villages the connectivity of internet is very poor. It requires the infrastructure each and every part of the country to maintain good internet speed. There are many securities threats also like phishing. It requires awareness of how the users can protect them by these threats. So all the institutions like banks should run various awareness program to aware the users about threats and protections. With this Government should provide good technology at lower cost by reducing taxes on the smart phones and laptop.

References:


