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## Modern Banking - Importance Of Cashless Economy

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### **ABSTRACT**

*The Indian Banking regulation act of 1949 defines banking as accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdraw able by cheque, draft, and order or otherwise. There is wider acceptance of the concept that finance and economic growth are positively related. There is significant transformation of banking sector of India due to financial sector reforms initiated in 1990s. Apart from financing the needs of major sectors in the economy, banking has a lot to do in the modern economy as the payment systems constitute the backbone of economic activities. Recently announced demonetization scheme of high value denomination currencies in India stresses the importance of digital payments and banking technologies. Electronic banking has become the necessity in these days. The technology and security standards are of prime importance as the entire base of Internet banking rests on it. Also the competition has increased to such an extent that the one who is not compatible with the changing environment is not able to survive for long. E-banking comprises of Internet Banking, Smart Cards, Debit Cards, Credit Cards, Automated Teller Machines, and Charge Cards etc. Now-a-days, foreign banks are also entering into the Indian Banking Market. They are serving a hard and severe competition to nationalize and private sector banks .So this paper intends to make familiarize with the innovations in banking.*

**Keywords:** Innovations, Cashless transaction, Economy, Core banking, Online payments.

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## INTRODUCTION

The developments in Tele-communication technology and electronic data processing have contributed to remarkable changes in banking sector. Also the application of modern information technology has altered the traditional ways of banking. Apart from this, availability of ATMs and plastic money has helped the customers to avoid bank premises for cash. All such developments in banking sector led to the concept of Electronic banking recently. Keeping all these in mind, in a country like India, where cash to GDP ratio is 12%, a surgical attack, as the Central Government called demonetization lead to severe crisis. 85% of total money in circulation (in value terms- 14 lakh crores) was demonetized recently in India. In this situation it is important to analyze the situation and find whether it is possible to transform India into a cashless economy and specify the importance of banking innovations. So it is high time of India to be thinking of possibilities of efficient secure payment systems in banking. Payment systems are the backbone of any financial economy. A well-defined payment system is a crucial component of financial infrastructure.

## OBJECTIVES OF THE STUDY

- ❖ To make a comparative study on customer satisfaction Innovative Banking services in India.
- ❖ To understand the Importance in Cash Less Economy by public while using Innovative technologies.

## SCOPE OF STUDY

Technological innovations in the world made positive impaction payment systems in India. RBI has insisted all banks for the computerization of procedures and promoted Core banking solution. Technology plays key role in banking strategy through which banks made a jump from paper based transactions that includes usage of currency notes, cheque, challan to electronic means that includes RTGS, NEFT and other electronic payment modes like ECS, debit and credit cards.

## PAYMENT SYSTEMS

The Reserve Bank has taken many initiatives towards introducing and upgrading safe and efficient modes of payment systems in the country to meet the requirements of the public at large. The dominant features of large geographic spread of the country and the vast network of branches of the Indian banking system

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require the logistics of collection and delivery of paper instruments. These aspects of the banking structure in the country have always been kept in mind while developing the payment systems.

## **PAPER-BASED PAYMENTS**

Use of paper-based instruments (like cheques, drafts, and the like) accounts for nearly 60% of the volume of total non-cash transactions in the country in value terms, the share is presently around 11%. This share has been steadily decreasing over a period of time and electronic mode gained popularity due to the concerted efforts of Reserve Bank of India to popularize the electronic payment products in preference to cash and cheques.

Since paper based payments occupy an important place in the country, Reserve Bank had introduced Magnetic Ink Character Recognition (MICR) technology for speeding up and bringing in efficiency in processing of cheques.

Later, a separate High Value Clearing was introduced for clearing cheques of value Rupees one lakh and above. This clearing was available at select large centres in the country (since

discontinued). Recent developments in paper-based instruments include launch of Speed Clearing (for local clearance of outstation cheques drawn on core-banking enabled branches of banks), introduction of cheque truncation system (to restrict physical movement of cheques and enable use of images for payment processing), framing CTS-2010 Standards (for enhancing the security features on cheque forms) and the like.

While the overall thrust is to reduce the use of paper for transactions, given the fact that it would take some time to completely move to the electronic mode, the intention is to reduce the movement of paper – both for local and outstation clearance of cheques.

## **ELECTRONIC PAYMENTS**

The initiatives taken by RBI in the mid-eighties and early-nineties focused on technology-based solutions for the improvement of the payment and settlement system infrastructure, coupled with the introduction of new payment products by taking advantage of the technological advancements in banks. The continued increase in the volume of cheques added pressure on the existing set-up, thus

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necessitating a cost-effective alternative system.

## **ELECTRONIC FUND TRANSFER-EFT**

Electronic Fund Transfer is the process by which money is transferred from one place to other electronically on a real time basis. Salary placed into account by Electronic Fund Transfer,

Money withdrawn from ATM is the examples of Electronic Fund Transfer. Through this scheme, work from home becomes easier, quick and safe. Currency and Exchange rate are automatically calculated when funds are being transferred from one country to other. In this system, Encryption, Verification and passwords are used for secure payments. Any transactions of sale, refund, withdrawal, deposit, payments and so on can be performed under EFT. Electronic Fund Transfer Point of Sale technology empowers a retailer to directly debit a customer's bank account by using a debit card. Debit card swiped through a reading machine and the PIN number has to be provided to enhance transaction. Cashless options available in India through banking innovations are,

## **NATIONAL ELECTRONIC FUND TRANSFER- NEFT**

National Electronic Fund transfer mechanism assist fund transfer from one bank to other through RBI server and settlement occurs on net basis. Every day, RBI system enables 3 sessions of electronic clearing and after the completion of each session; the net amount will be settled among banks through their current accounts maintained with RBI. NEFT settlement happens within 24 hours and there is no limit for amount transacted. The condition here is that, the two branches of bank must be Core Banking Solution enabled.

## **REAL TIME GROSS SETTLEMENT - RTGS**

Real Time Gross Settlement is a payment mechanism for interbank payments. In this method, one bank makes payment electronically to another bank through RBI. Paying bank sends a message to RBI, based on which it debit current account paying bank and credit current account of receiving bank without a time lag. Banks participating in RTGS have to maintain a current account with RBI and each transaction is settled within 2 hours Transaction or remittance made through RTGS can never be cancelled

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or modified. RTGS is done through interfacing Core Banking Solution of 2 banks with computer server of RBI. The transaction limit under RTGS is minimum 100000 rupees.

## **IMMEDIATE PAYMENT SERVICE - IMPS**

Immediate Payment Service was introduced by National Payments Corporation of India in 2010. It is an instant real time interbank electronic fund transfer system of India through mobile phone. This facility is available on a 24\*7\* basis.

## **UNIFIED PAYMENT INTERFACE -UPI**

Unified Payment Interface interconnects banks to help transfer funds. In this mode, both money sender and receiver need a UPI identity. Currently thirty banks in India offer this facility.

## **UNSTRUCTURED SUPPLEMENTARY SERVICE DATA (USSD)**

Unstructured Supplementary Service Data helps customers to link their mobile number and bank accounts and then to make payments. It was developed by National Payments Commission of India which is technology based service for feature phones

through which customers needed to dial \*99# and enter short messages for basic banking activities such as balance enquiry and generating mini statement.

## **MOBILE BANKING**

It refers to conduct of banking operations on mobile. The services under mobile banking involves, making enquiry about bank balance and last few transactions, viewing details of bank account, order demand draft and so on. It is a service provided by a bank or other financial institution that allows customers to conduct financial transactions via mobile device like mobile phone or tablet. Mobile banking uses software called an app for this purpose. This facility is available on a 24 hour basis and some banks impose restrictions on which accounts can be accessed.

## **E-WALLETS**

E-wallet is a type of electronic card which is used for transactions made online through a computer or a Smartphone. Its utility is same as a credit or debit card. An E-wallet needs to be linked with the individual's bank account to make payments. E-wallet is a type of pre-paid account in

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which a user can store his/her money for any future online transaction. An E-wallet is protected with a password. With the help of an E-wallet, one can make payments for groceries, online purchases, etc.

E-wallet has mainly two components, software and information. The software component stores personal information and provides security and encryption of the data. The information component is a database of details provided by the user which includes their name, shipping address, payment method, amount to be paid, credit or debit card details, etc. For setting up an E-wallet account, the user needs to install the software on his/her device, and enter the relevant information required. After shopping online, the E-wallet automatically fills in the user's information on the payment form. To activate the E-wallet, the user needs to enter his password. Once the online payment is made, the consumer is not required to fill the order form on any other website as the information gets stored in the database and is updated automatically.

## **DEMONETIZATION**

Indian economy is the fastest growing economies among all emerging

nations. At the same time, it's very much sensitive to any uncertainties that happen in the world. On 8th November 2016 Mr. Narendra Modi banned the circulation of INR 500 and 1000 notes to curb black money in India; it will surely affect Indian economy in near future. There are several uncertainties expected in next couple of months for example FED rate hike, further devaluation of Yuan, Italy referendum and many more, which will impact Indian economy condition at large.

Though demonetization has some shortcomings in the short run but In my opinion, it's a revolutionary step for the Indian economy. In the short run, people will face difficulty in getting cash as trading of high-value notes is banned and a limit is imposed on withdrawal of the cash from the ATM and banks. This will reduce liquid cash with people and they will start consuming less. As Indian GDP is consumption driven, demonetization will impact GDP of the country for next 1 or 2 quarters. Farmers and business people from unorganized sectors may face difficulty in selling their goods and hence generating their income, which will lead to the reduction in their disposable income. And hence their consumption will reduce and

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followed by the reduction in the GDP of the country. Goldman Sachs earlier predicted GDP of India will grow at a rate of 7.9% now they have revised their GDP growth rate prediction to 6.8% for FY 2016–17.

People possessing black money will deposit their cash in banks. So the liquidity with banks will increase and they can lend more money in the market. The supply of money in the market will increase and hence interest rates will come down which will promote investment in the country. As the investment will increase, production of goods and services will rise, which will lead to increase in the employment in the country and hence income of the people as the disposable income of people will increase, consumption

Demonetization is the act of stripping a currency unit of its status as legal tender. It is a necessary scheme where there is a change in national currency. The old unit of currency becomes retired and replaced with a new currency unit. As part of demonetization, the currency loses its public confidence and further it will not be supported by government. The central government plans to promote a cashless economy and people also preferring it due to difficulties with cash holdings and dealings.

The countries like Canada, Norway Denmark, Kenya, South Korea etc. have already adopted cashless economy either by penalizing high value cash transactions or by stopping printing of high value currencies. A cashless economy means an economy with cash free transactions where coins and notes replaced by bits and bytes and spending, earning, investment gets updated in real time through smart phones.

## CONCLUSION

The cashless economy has its own advantages. The transaction costs are coming down and will further go down. Once a substantial part of transactions are cashless, it would bring down the cost of printing, managing and moving money around. Further, the cashless economy automatically solves the problems of cash out on long holidays, risk of carrying currency notes etc. Further, the lesser use of cash strangulates the grey economy, prevents money laundering and increase tax compliance. Increased tax base would result in greater revenue for state and greater amount available to fund the welfare programs. Lastly, Cash being material, can be prevented from circulation but electronic channels alleviate this friction and increase circulation of currency.

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The scope of Modern banking in a cashless economy in the context of demonetization is relevant but in India even though there is 1 billion mobile phones in usage, there is more amount of less sophisticated phones and lack of knowledge also becomes a constraint for the smooth functioning. Creating a basic infrastructure and increasing banking density is the need of the hour.

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