

## Demonetization and Cashless Transactions in Indian Banking System

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### Abstract:

India is the largest country in South Asia with a huge financial systems characterized by variety of institutions and instruments. The Indian financial sector was well developed even before political independence of the country in 1947. The first bank in India, though conservative was established in 1786 (General Bank of India was the first joint stock bank). In the first half of the 19th century, the East Indian Company established three banks: The Bank of Bengal in 1809, The Bank of Bombay in 1804 and Bank of Madras in 1843. These three banks were amalgamated in 1920 and the Imperial Bank of India was established on Jan 27, 1921. With the passing of the SBI Act in 1955, the Imperial Bank of India was taken over by the newly constituted SBI. The Reserve Bank, which is the Central Bank, was created in 1935 by passing the Reserve Bank of India act 1934.

The e-banking is playing a very important role in the present day. The progress of e-banking is measured through various parameters such as internet banking, computerized branches and transactions through retail electronic method etc. The change in currency notes also has the great impact on Indian banking industry. This study focuses on e-banking system and cashless transactions in India. Demonetization has also played a key role in the economic affairs of the country. The decision taken by the Priminister Shri Narendra Modi has encouraged the cashless transactions in the country and growth of e-banking. People in India have now changed their mind and they are following e-marketing and e-shopping.

Keywords : e-banking, The Reserve Bank, demonetization, e-marketing and e-shopping..

### Introduction:

Economic growth is the most powerful instrument for reducing poverty and improving the quality of life in developing countries. Both cross-country research and country case studies provide overwhelming evidence that rapid and sustained growth is critical to making faster progress towards the Millennium Development Goals – and not just the first goal of halving the global proportion of people living on less than \$1 a day. Growth can generate virtuous circles of prosperity and opportunity. Strong growth and employment opportunities improve incentives for parents to invest in their children's education by sending them to school. This may lead to the emergence of a strong and growing group of entrepreneurs, which should generate pressure for improved governance.

Strong economic growth therefore advances human development, which, in turn,

promotes economic growth. But under different conditions, similar rates of growth can have very different effects on poverty, the employment prospects of the poor and broader indicators of human development. The extent to which growth reduces poverty depends on the degree to which the poor participate in the growth process and share in its proceeds. Thus, both the pace and pattern of growth may become matter for reducing poverty. In recent times, reduction of poverty over worldwide has become the matter of serious concern.

A successful strategy of poverty reduction must have at its core measures to promote rapid and sustained economic growth. The challenge for policy is to combine growth promoting policies with policies that allow the poor to participate fully in the opportunities unleashed and so contribute to that growth.

This includes policies to make labour markets work better, remove gender inequalities and increase financial inclusion.

Indian Financial system has a long history of achievements from the stage of isolation to the stage of integration of many financial institutions and markets. The movement of money though first originated in Mesopotamia, India has made a significant contribution in the exchange system especially during the period of Muhammad bi Tughlaq in 1300 AD. Financial system in India consists of many institutions, instruments and markets. In India, the institutional finance ranges from pawnshops and moneylenders to banks, pension funds, insurance companies, securities, brokerage houses, investment trusts and stock exchanges.

In India, the coinage has created the significant role in the development of financial system. In modern economy, financial system provides services that are essential for the development and growth of the individual and the nation. Further, the resources from net savers to borrowers transfer of financial resources, real and fixed assets are some of the influencing sources of Indian financial system. In planning for the future, it is important to the nation to depend more clearly and consistent on procurement, utilization and maintenance of financial resources. As the demand for finance ever grows, the Governments responsibility in providing free flow of financial services is vital for achieving the individual and national development.

## **2. THE INDIAN BANKING SECTOR :**

India is the largest country in South Asia with a huge financial systems characterized by variety of institutions and instruments. The Indian financial sector was well developed even before political independence of the country in 1947. The first bank in India, though conservative was established in 1786 (General Bank of India was the first joint stock bank). In the first half of the 19<sup>th</sup> century, the East Indian Company established three banks: The Bank of Bengal in

1809, The Bank of Bombay in 1804 and Bank of Madras in 1843. These three banks were amalgamated in 1920 and the Imperial Bank of India was established on Jan 27, 1921. With the passing of the SBI Act in 1955, the Imperial Bank of India was taken over by the newly constituted SBI. The Reserve Bank, which is the Central Bank, was created in 1935 by passing the Reserve Bank of India act 1934.

In the wake of the Swadeshi Movement, two successive nationalized banks were taken on July 19, 1969, 14 major banks of the country were nationalized, and on April 15, 1980, 6 more commercial private sector banks were also taken over by the government. The present commercial banking system in India may be distinguished into public sector banks, private sector banks, and foreign banks. Thus, public sector banks revived to take up leading role in the banking structure. In 1980, the GOI nationalized 6 more commercial banks, with control over 91% of banking business of India.

## **3. OBJECTIVES AND METHODOLOGY :**

The main objective of the present research study is as follows –

- a. To study the importance of e-banking and cashless transactions in Indian banking system.
- b. To study the challenges before banking in India with respect to e-banking and demonetization.

The said research study is based on secondary data. Such secondary data is collected from various reference books related to E-banking. Trade Commerce, Industry, Economics and Management.

The secondary data is also collected from various website and other related literature and reviewed it. For the said research, study secondary data is also collected and reviewed from the various national and international Research Journals which are related to E-banking business practices.

#### 4. ECONOMIC REFORMS – LPG POLICY :

Government of India accepted the new economic policy and decided to implement economic reforms in the banking and financial sector. In the early 1990s the Hon. Narasimha Rao government embarked on the policy of liberalization licensing a number of private and foreign banks established. As the end of 31<sup>st</sup> March 2011 there were 19 nationalized banks (include IDBI) and state Bank of India its subsidiaries (7) they are called as Public sector banks. There were 21 private sector banks of these 14 are old private sector banks and 7 are new private sector banks. There were 36 foreign banks were operating in India from 24 different countries. Apart from these 30 regional rural banks 31 state co-operative banks. 4 local area banks, 53 scheduled co-operative banks and other medium and small size co-operative banks.

#### 5. E-BANKING :

Following are the **benefits** associated with the use of E-Accounting.

1. Save time and money.
2. Transaction that affects your bank account can be sent automatically to the online accounting application.
3. Send sales invoice and other document directly to another business accounts for the recipient to approve without having to reenter the information.
4. E-accounting any improve the effectiveness of accounting and reporting task, budgeting, controlling and auditing which may reflect on the organizational effectiveness as well.
5. Almost all purchase and incomes are already tracked by your bank accounts and credit cards. So, instead of re=typing in to your desktop accounting software or spreadsheet you can import the transition security and automatically.
6. It generates employment opportunities for software developer and accountants.

#### **Disadvantages of e-banking :**

1. Data security problem.
2. Speed of broadband connection.
3. Network

4. required ability to users.
5. Fear of losing your customer data base.
6. Lock some features available on the offline office suites.

#### 6. DEMONITIZATION:

An important decision taken by the Govt. of India on demonetization of currency notes of Rs. 500 and Rs. 1000. These notes will no longer be legal tender from mid night of 8<sup>th</sup> November, 2016.

Reserve Bank of India will issue Rs.2000 note and new notes of Rs. 500 which will be place in circulation from 10<sup>th</sup> November, 2016. Notes of Rs. 100, Rs. 50. Rs. 20, Rs. 10 Rs. 5, Rs. 2 and Rs.1 will remain legal tender and will remain unaffected by this decision. Pri-minister Shri Narendra Modi addressed the nation on this issue and in his speech addressed to the Nation, he categorically told that this decision resolved the problem of corruption, black money and fake notes. In this paper an attempt is made to know the concept of demonetization its causes and effect on Indian economy.

#### **Meaning of demonetization :**

Demonetization is a process by which a series of currency will not be legal tender. The series of currency will not be acceptable as valid currency. In other words demonetization is a act of removing a currency unit of its status as legal tender.

#### **History of demonetization :**

Demonetization is almost as old as the currency. The biggest demonetization phenomenon of modern currency was introduction of Euro when all EU nations demonetize their currency and started using Euro. In modern word many countries including developed and developing countries have done it. US, Australia, USSR, India, Pakistan, African nations like Nigeria and Ghana have done it. In India for the first time demonetization was done in 1946. Reserve Bank of demonetize the then circulated Rs. 1000 and Rs. 10,000 notes. Higher demonization bank notes in Rs.1000, Rs.5000

and Rs.10000 were introduced after 8 years i.e. in the year 1954. Again during the regime of Janata Government under the leadership of Shri Morarji Bhai Desai the Indian Govt. demonetized the Rs.1000, Rs.5000 and Rs.10000 notes. Demonetization act was passed in the year 1978 and later on January 16, 1978, all high denomination bank notes ceased to be legal tenders. People carrying these notes were given a week's time to exchange the currencies. In 2016 one month's time was given. The main difference then and now however that is the currency of higher denomination was barely in circulation unlike the Rs.500 and Rs.1000 notes today.

#### **Causes of Demonetization:**

There can be many causes of demonetization in any economy, some of them are –

1. Introduction of new currency,
2. Attack on black money,
3. Currency storage.
4. Corruption.
5. Excess fake currency.
6. To attack on parallel economy.
7. Terror financing.

#### **Benefits of Demonetization:**

Following are the benefits of demonetization –

1. Improve monetary transmission and reduce lending rates.
2. Boost deposit based and savings.
3. Support Government finances.
4. Help for financial inclusion.
5. Rise in GDP growth potential.
6. Increases digital and cashless transactions.

#### **Demerits of Demonetization:**

1. Initially inconvenience was found to common man. There will be rush in the bank premises for withdrawal.
2. Because of

demonetization RBI incurred a cost of Rs.12 000 crores.

3. People who are not well versed with card transaction faced difficulties. 4. Short term inflation. 5. Prices of Gold fall down. 6. It also affected stock market in short term.

From 13<sup>th</sup> March, 2017 onwards people can withdraw any amount without restrictions and the economy will be in normal course. People of India have accepted this decision because Government has taken this bold step in order to solve many problems before our economy.

Impact on various sectors of economy - This decision has short term effect on the following sectors of our economy -

1. Agriculture and related sector.
2. Small traders.
3. Small and medium enterprises.
4. Services sectors.
5. Households.
6. Political parties.
7. Professional.
8. Women.
9. Youth.
10. Service sector.
11. Bureaucrats.
12. Rural market etc.

In short the decision of demonetization is a move towards a cashless society and digital economy, which will be more efficient. It reduces transactions costs in range of areas from payments to loans. This can contribute towards innovation and growth. It's an attack on black money. This is expected to give boost to tax collections and countries revenue. It aims to pull the rug from under the feet of those circulating fake notes, which destabilize the economy. It is an attack on terrorism; terrorist activities will be under control. In near future this decision will prove a positive sign for the economy in the long run.

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