

# IMPACT OF CASHLESS SOCIETY ON BANKING SECTOR

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*WITH REFERENCE TO THE MEERUT REGION*

*BY*

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## **INTRODUCTION**

A **cashless society** describes an economic state whereby financial transactions are not conducted with money in the form of physical banknotes or coins, but rather through the transfer of digital information (usually an electronic representation of money) between the transacting parties.<sup>[1]</sup> Cashless societies have existed, based on barter and other methods of exchange, and cashless transactions have also become possible using digital currencies such as bitcoin. However this article discusses and focuses on the term "cashless society" in the sense of a move towards, and implications of, a society where cash is replaced by its digital equivalent - in other words, legal tender (money) exists, is recorded, and is exchanged only in electronic digital form.

### **What is a cashless economy and where does India stand?**

A cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal. India uses too much cash for transactions. The ratio of cash to gross domestic product is one of the highest in the world—12.42% in 2014, compared with 9.47% in China or 4% in

Brazil. Less than 5% of all payments happen electronically. The number of currency notes in circulation is also far higher than in other large economies. India had 76.47 billion currency notes in circulation in 2012-13 compared with 34.5 billion in the US. Some studies show that cash dominates even in malls, which are visited by people who are likely to have credit cards, so it is no surprise that cash dominates in other markets as well.

### **A Cashless Future Is The Real Goal Of India's Demonetization Move**

"This is a public sector innovation unthought of in history. A cultural-economic revolution in the making!" exclaimed Monishankar Prasad, a New Delhi-based author and editor, about India's demonetization initiative and subsequent drive towards developing a cashless economy.

The biggest problem with India suddenly removing 86% of its currency from circulation without having an adequate supply of new notes ready to take their place is that fact that India is more reliant on cash than almost any other country on earth. Suddenly, hundreds of millions of people were left without the means to engage economically, to buy the things they wanted and needed, and myriad businesses were left without a readily available mechanism to receive payment for their goods, to buy supplies, or pay their staff.

India's demonetization scheme was a unilateral initiative that was planned in secret — in a back room of Prime Minister Modi's home, in fact — by a small group of insiders tied-in with the upper echelons of India's government. The strategy was to instantly nullify all 500 and 1,000 rupee banknotes, the most common currency denominations in the country, and then eventually replace them with newly designed, more secure 500 and 2,000 rupee notes. This endeavor instantaneously became policy when the prime minister announced it via a surprise television address at 10:15 PM on November 8.

One of Modi's main brands is that of a corruption fighter, and his demonetization initiative was rushed into effect in an attempt to catch the black market off guard — which could potentially lead to a big payday for the central bank if large amounts of

illicit cash wasn't redeemed. That plan flopped, as almost all of the recalled notes were officially accounted for one way or another.

*Read more about Modi's demonetization initiative here, here and here.*

But this surprise demonetization also did something else: it pushed millions of new users onto the country's digital economic grid by virtual fiat. Not even the banks were notified in advance of Modi's plan, and, even with strict exchange limits that prohibited people from exchanging over \$60 worth of rupees at a time, they simply didn't have enough of the newly designed banknotes on-hand to distribute to the masses looking to redeem their canceled notes. Rather than being a 50 day transition, as the Indian government projected, it is looking as if it will take four months to a year before the country's currency supply is restored.

In point, the people of India were left in limbo as the government cancelled the bulk of their currency without providing them with the means to obtain the newly printed notes to replace it. On the surface, this seems as if it was a matter of gross negligence, but there may have been more to it than that. As the demonetization process continues, Modi's rhetoric is less about fighting corruption and more about transitioning India to a cashless economy.

## **2. LITERATURE REVIEW**

Review of literature is backbone of every research study. It is important to review the existing literature to have an overview of what kinds of studies have been conducted and what are the gaps in literature. Therefore, various studies studied on Effect of Cashless Society On Banking Sector which were conducted in India and abroad have been reviewed.

- The Effect of cashless society on Banking Sector, where clumsy and expensive-to-handle coins and notes are replaced by efficient electronic payments initiated by various types of plastic cards is a tantalizing prospect for the twenty-first century. Some of the interested

parties stand to gain more than others if the cashless society becomes a reality. Outlines the rationale of those who are keen to promote the cashless society and the implications for marketeers charged with winning consumer acceptance for payment by plastic card. Commencing with a European-wide view of the European plastic card market, focuses on recent developments within the UK, one of Europe's leading countries in the use of plastic cards as a means of payment. The plastic card payment product is analysed under the three headings of pay later, pay now and pay before and a view is offered as to the future prospects for each type of plastic card in contributing to the development of the cashless society.

### 3. OBJECTIVES OF THE STUDY

Here are the Objectives of the Study:

1. The objective of the study is to dissect the current monetary system of paper currency and coins and to devise a model that overcomes the shortcomings of cash. As the global economy unknowingly ventures into a time when everything becomes cashless, we discuss how the coexistence of cash with plastic money serves little and rather a meaningless purpose. With the help of technology, a completely cashless economy isn't as far from us as one expects. .
2. With an aim to move towards a cashless payment system in India, we look at the existing card based payment system.
3. The objective of this study is to carry out a review of the roles played by various players of the system like swipe machine etc.

### 4. RESEARCH METHODOLOGY

- **Type of research:** Descriptive Research.
- **Population:** Meerut is a city in the Indian state of Uttar Pradesh.
- **Sample size:** 15

- **Data collection instrument:** Data can be classified into two types:

- **Primary data:** Primary data is the original data collected by researcher himself for a specific purpose.

Primary Data Collection Methods:

- ✓ Interviews
- ✓ Questionnaires and Surveys
- ✓ Observations
- ✓ Focus group Interviews
- ✓ Ethnographies, Oral History, and Case Studies

- **Secondary data:** Secondary data is not original it is collected by somebody else for some other purpose.

Secondary Data Collection Methods

- ✓ Documents
- ✓ Notes
- ✓ Letters
- ✓ Internet

**I have used both primary and secondary data**

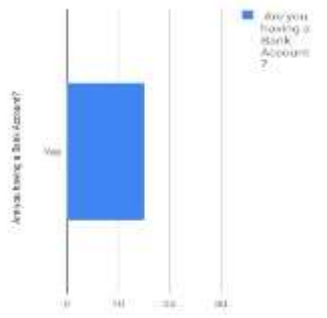
## **5. HYPOTHESIS**

- **H0 – There is no significant improvement in cyber security measures in online banking in India.**
- **H1 – There is significant improvement in cyber security measures in online banking in India.**

## 6. DATA ANALYSIS AND INTERPRETATION

### Analysis and Interpretation of collected data through pie charts:

#### PIE CHART : 1

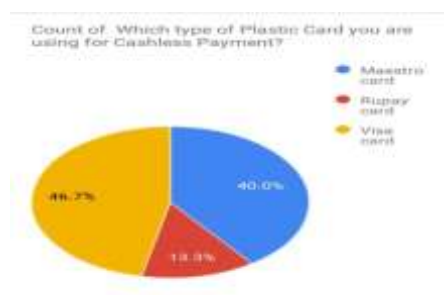


OPTIONS	RESPONSES	PERCENTAGE(%)
YES	15	50
NO	15	50

#### DATA INTERPERTATION

As we can see that this chart is showing number of respondents having a bank account . This representing that 15 out of 30 respondents are having bank accounts.

#### PIE CHART : 2



OPTIONS	RESPONSES	PERCENTAGE(%)
MAESTRO CARD	12	40.0
RUPAY CARD	4	13.3
VISA CARD	14	46.7

**DATA INTERPERTATION**

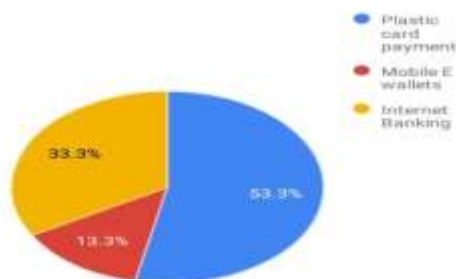
Here in this chart it is shown the count of type of Plastic cards people are using for Cashless Payment. It represents that most of them i.e, 46.7% people are using Visa cards whereas 40% respondents are using Maestro card and only 13.3% respondents are using Ru pay card.

**PIE CHART : 3**

OPTIONS	RESPONSES	PERCENTAGE(%)
PLASTIC CARD PAYMENT	16	53.3
MOBILE E WALLET	4	13.3
INTERNET BANKING	10	33.3

**DATA INTERPERTATION**

Count of Which method you are opting for Cashless Payment?

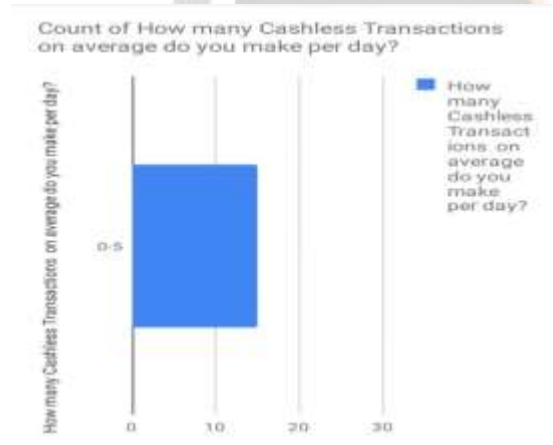




This pie chart is showing the method opted by the customers for cashless payment and we can see that 53.3% i.e, most of the respondents use Plastic card payment method for cashless payment whereas 33.3% uses Internet banking for online payments and only 13.3% are using Mobile E wallets for cashless payment.

**PIE CHART : 4**

OPTI ONS	RESPONSES	PERCENTAGE (%)
HOW MANY TRANSACTION S O AN AVERAGE DO YOU MAKE PER DAY?	15	50



**DATA INTERPERTATION**

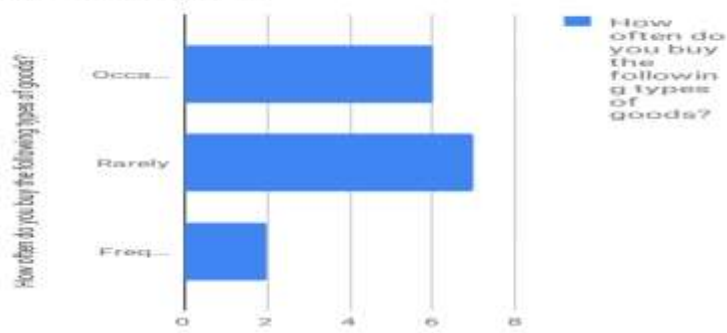
In this chart we can see the counts of cashless transactions on average that people make per day. So it is showing that 15 respondents out of 30 respondents are making cashless transactions on average they make per day.



**PIE CHART : 5**

OPTIONS	RESPONSES	PERCENTAGE(%)
OCCASIONALLY	6	40
RARELY	7	46.6
FREQUENTLY	2	6.6

Count of How often do you buy the following types of goods?

**DATA INTERPERTATION**

This chart is representing how often do the respondents buy the following type of goods. We can see that out of 30 respondents 6 buy items occasionally, whereas 7 respondents buy goods rarely and only 2 buy goods frequently.

**7. SUGGESTIONS**

- Open Bank accounts and ensure they are operationalized.
- Abolishment of government fees on credit card transactions; reduction of interchange fee on card transactions; increase in taxes on ATM withdrawals.
- Tax rebates for consumers and for merchants who adopt electronic payments.
- Making Electronic payment infrastructure completely safe and secure so that incidents of Cyber crimes could be minimized and people develop faith in electronic payment system.
- Create a culture of saving and faith in financial system among the rural poor.

●The Reserve Bank of India too will have to come to terms with a few issues, from figuring out what digital payments across borders means for its capital controls to how the new modes of payment affect key monetary variables such as the velocity of money.

●RBI will also have to shed some of its conservatism, part of which is because it has often seen itself as the protector of banking interests rather than overall financial development.

●The regulators also need to keep a sharp eye on any potential restrictive practices that banks may indulge in to maintain their current dominance over the lucrative payments business.

### **Here are two ways in which cashless can be encouraged:**

Giving an indirect tax rebate for using cashless methods of payment, which brings parity between cash and cashless. Even online, merchants can be incentivised to charge less for digital payments, and more for cash on delivery.

Digital Payments businesses have tried their hand with cashbacks, and lower rates for digital purchases have already encouraged digital payments. Incentives could be given to businesses, which they can transfer to customers.

However the votaries of 'cashless' believe the change in mindset is not impossible. Sudhir Kapadia, partner and national tax leader at EY India, says going less cash is not impossible. He cites India's achievements in mobile phone penetration as an example, when, in the initial days, there was much scepticism. "As a country, we have leapfrogged from huge dependence on landline phones to mobile phones," he says. Telecom regulator TRAI said in September this year that India has over 1 billion mobile phone users compared to around 25 million fixed line users (the actual users would be much less, estimated at around 600 million, since the 1 billion figure includes multiple SIM cards and several defunct subscriptions that may have not been updated). Kapadia says there is a desire among the new

generation of entrepreneurs to go into the formal system (where they conduct transactions through banks, which leaves a digital trail and is taxable), either to raise finance through external means or as a good corporate governance practice. It also helps many small and medium size business firms who want to be part of the forthcoming GST (Goods and Services Tax) system.

A MasterCard white paper, 'Cashless Journey', published in September 2013 places India in the 'inception' category-where over 60 per cent consumer spend by value is using cash. But the paper does suggest that innovation can provide shortcuts in the journey. M-Pesa, a remittance and payment scheme using mobile phones, is widely accepted in Kenya. Launched by Safaricom, the country's largest network mobile operator, M-Pesa enables anyone with a mobile phone to pay or send money electronically. It has cut across the traditional barriers to going cashless, such as a buyer needing a bank account, or a seller a landline connection. Once you have signed up for M-Pesa, you pay money into the system by handing over cash to one of Safaricom's 40,000-plus agents who then credit the money to your account.

Some experts agree with Jaitley on not replacing all the demonetised currency in order to get the economy back in shape. Rather, they argue that the economy will be in better shape with less cash. K.V. Kamath, president, New Development Bank (formerly Brics Bank), said in a media interview that the game seems to be to compress the amount of currency in circulation. "If you were pushing towards a digital economy...you don't have to get back the whole amount of life blood, as it were [to get the economy back in shape]," he said, using the analogy of a patient going under the knife. Sangh Parivar ideologue S. Gurumurthy supports this, pointing to what he felt was an "alarming" growth of cash in India. Fuelled by black money, cash as a proportion of GDP has grown from 9.4 per cent in 1999 to 12 per cent at present, he said in an interview. Bringing the proportion of cash down to earlier levels required a big clean-up, he said, adding that only administering a sudden shock would have made people move towards digital transactions.

## 8. FINDINGS

Findings emerged from the study have been presents as under:

- ✓ HDFC Bank and ICICI Bank have provided the direct link to their online banking services from the Home page of the main website. On the other hand SBI and PNB have exclusive portal for online banking services.
- ✓ HDFC and ICICI Bank have the facility of generation of password online but in case of SBI Bank one has to visit the branch to request for new password.
- ✓ All the selected banks display last login time and date on their portals.
- ✓ The option to assign maximum transfer limit to account is another security feature. All the selected banks have his facility in their internet banking.
- ✓ Study found that adoption rate of credit card usage is low and security and privacy concern is high.

## 9. CONCLUSION

This paper was initially inspired by the notion of the “cashless society”, a topic which has become much publicized in the media and which as such has served as a vehicle for frequent speculations on behalf of various organizations and public figures. The authors thus wanted to demystify this concept by taking a look at the actual progress that two different societies have achieved on their way to making a switch from cash-based to electronic transactions. Their focus was on how consumers’ attitudes on the subject vary between Denmark and Bulgaria; a choice that was motivated by the contrasts in the level of development between these countries in terms of their standard of living and the degree of digitalization. The study begun with an investigation of the existing literature, with a particular emphasis on the inferences of consumer perceptions and social demographics; however, recent trends in relation to settling transactions in the countries of interest as well as various technological challenges and security and privacy risks were also evaluated. The papers written by authors such as Khan (2012), Bounie & François (2006), Rogoff (2014), Claessens (2006), Dastan & others (2016) played a central role in the

literature review and served as a starting point for the development of a research design based on mixed methods. The first part of conducting the research was based on qualitative methods (semistructured interviews subjected to discourse analysis), the purpose of which was to identify which of the topics covered by literature were applicable in the context of the study and to get an initial insight into how consumers argue about their attitudes towards the main categories of payment methods in the two nations. The primary findings from this part suggest that there are a number of challenges that EMTS face in Bulgaria, which are related to poor implementation of EMTS solutions across retailers and a general attitude of mistrust and poor knowledge of the system and its benefits among consumers. Also important to note is a lifestyle that undermines the perceived usefulness of electronic payments and a number of misconceptions and stereotypes about bank services and alternative payment methods in general. All of these are issues which are only applicable for Bulgaria; in Denmark no major issues with EMTS were identified, however, it was reported that some retailers only accept Dankort and that the use of mobile payment services is still rather limited in contrast to that of bank cards.

## 10. REFERENCES

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