

CASHLESS ECONOMY: A KEY TO DIGITAL PROLIFERATION IN INDIAN BANKS

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ABSTRACT

Digitalization is rapidly growing worldwide and it has changed the business landscape. Cashless economy is the first important step towards this digital push. Demonetization step driven in the country lead to a great infusion among the people to move a step ahead towards the cashless society. Financial services industry is going through an abrupt change due to emergence of technological innovation. Information and Communication Technology had a great impact on the banking sector. In this new fintech era banks in India are moving from conventional to convenience banking approach. The topmost agenda in banks is digitization. Going cashless has many positive aspects but at the same time it has been confronted with several challenges. This paper seeks to examine the impact of cashless society on banks performance by focusing on issues and challenges of cashless economy through SWOT analysis as various issues exists in Indian economy like Digital Divide, technological disruptions etc. which effects bank performance.

Keywords: Digitalization, Information and Communication technology, Cashless, Banks performance

INTRODUCTION

Digital India programme makes India digitally empowered society and in this scenario of digitization Demonetization prevails in the country. The success of Digital India programme lies in the foundation of ICT infrastructure. ICT represents all components related to computer and digitalization. According to Hanna (1994) fast response, flexibility and information are the key factors to deal with global competition and information communication technology plays a critical role in these areas for the purposes of quality enhancement. ICT plays a crucial role in bringing sustainable development in every nation. For the promotion of cashless policy, ICT plays a major role. A Cashless economy is a situation of the non-existence of cash in an economy and transactions can be done through electronic channels like debit and credit cards, IMPS (Immediate Payment Service), NEFT, RTGS in India. Cashless is a game changer reform which consequently turns Indian cash economy into cashless economy. Digitization has the potential to transform India from a developing to a developed economy. Banks are the backbone of any economic system and they play a central role in modern financial system. Now a day's conventional or traditional banking approach got converted into modern banking practices. Demonetization and the cashless path had influenced every corner of the society. For the proper implementation of cashless policy Banks require a huge investment in ICT and other technologies. The Indian payment system is moving towards IT- based system. There will be ease in doing financial transactions by increased adoption of e- payment system. The **World Bank's development Report-2016** anticipated that in many instances digital technologies have boosted growth, expanded opportunities and improved service delivery. In 2017 digital payment methods like Venmo i.e. direct payments to other individuals without having any access to cash and Square is another innovation that allows small businesses to receive payments from their clients. These types of e-payment modes serve as a step towards cashless policy. RBI and Government both are putting their efforts for the reduction of cash in the economy by initiating the Digital India movement. At the center of this global revolutionary change, ICT has a major role to play. Cashless channels in the present scenario are ATMs, POS (Point of Sale terminal), Telephone Banking, Smart cards, internet Banking. The banking sector is totally revolutionized by ICT in all areas of its operations.

Modes of payments in Banks during cashless economy:

- 1) Banking cards: These cards provide KYC (Know your Customer) information to the bank.
- 2) USSD: It serves the purpose of mobile banking by providing MPIN(Mobile Pin) and (MMID) Mobile Money Identifier for the transaction.
- 3) AEPS: A bank account can be opened which links with the “Aadhar card” information.
- 4) UPI: A bank account linked with the mobile number
- 5) Mobile wallets: It is a means to carry cash digitally i.e. an individual account is directly linked with the digital wallet to load money. Most banks have their e-wallets e.g. Paytm, Free charge, Mobikwik etc.

- 6) Internet Banking: It includes online transactions to conduct a range of financial services. It includes NEFT(National Electronic Fund Transfer), RTGS(Real Time Gross Settlement), ECS(Electronic Clearing System) and IMPS(Immediate Payment Service)
- 7) Mobile Banking: Banks are offering financial services on mobile phones(alerts on ATM withdrawal, credit card purchase, debit and credit card statements)
- 8) Micro ATM: These are the modification of Point of Sales terminal. It facilitates residents of underbanked areas or unbanked areas. Basically it is designed for rural India..

.Literature review

IDRC Project Report (2000) developed an ICT infrastructure for a better communication base among the villagers. Consequently, positive outcome was seen due to proper adoption and implementation of this approach. Yang et al (2005) adopted a case study approach to determine the operational efficiency of small community banks developed to serve the small geographical area and e-banking system had created opportunity for them so that business operations could be improved as market became more competitive. Sharma(2012) examined the need of internet banking in rural areas to serve the poor residing there, for these purpose 17 factors have been identified to provide better services to the poor. Akinola (2012) studied the reliability and with the same which leads to loss of money and to spread awareness about the usage pattern of e-services. Gupta et al (2013) studied about the role of ICT based payment system in Indian banking security as a part of cashless society. These factors have been focused to lessen threats associated sector for better smoothening and transparency of payment system rural people faced lots of problem due to remote location of villages so to reduce these types of problems ICT play a major role. Singh(2013) focused on the growing trend of usage of internet in urban, semi urban and rural areas. Many demographic and other factors have been taken into consideration like – gender, age, income etc. to determine the choice of e-banking. Midha (2016) discussed digitalization process and effectiveness of Digital India. Many factors have been discussed which proves to be a hindrance in the adoption of cashless society in its initial phase. Mathangiet al (2017) examined service quality improvement through digital banking. There was a shift in technology through digital banking. The main motive behind digitalization is to push Indians towards cashless economy. It identifies challenges and opportunities at the initial stage of digitalization. Singhet al (2017) examined the changing behavior of buyers after demonetization along with its impact on the people who are not much aware of digitalization. It was then concluded that the consumer behavior is directly influenced by demonetization and also revealed the importance of digital literacy foe cashless transactions. Munjal(2017) revealed the impact of demonetization on businessman, shopkeeper, retailer etc. and also deficiency of money in the economy how consumer make their payment without cash i.e. how digitalization had influenced the payment system of consumers. Sudent(2017) in his paper focused on SWOT analysis of cashless economy in Indian context i.e. strength, Weakness, opportunities and threats for India from going cashless. Gujrati (2017) examined three roles of Digital India i.e. Faceless, paperless and cashless transactions. The study examined the negative role of mobile in cashless India. Also various key issues like renewal of economy, increased competition etc. have to be addressed before the uptake of cashless system. Khurana (2017) in his study examined the role of Government in the promotion of cashless transactions in the economy. Also the benefits of cashless economy and the disruptions for its implementation has been discussed. Bindra(2017) examined both positive and negative impacts of cashless economy. Consequently in order to achieve the goal of digital India weakness of cashless transactions was accounted for. Ramya et al (2017) examined the role of RBI and the Government to encourage and implement less cash society. Also the study focused on positive role of digital transactions. Dash (2017) studied the importance of

cashless economy by focusing on steps needed initially so as to build up the critical network size. MIS approach has been implemented for the proper diffusion of cashless in Indian economy. Two components of MIS approach has been discussed i.e. mandatory schemes and incentivized schemes. Tawade (2017) examined the role of cash by opposing less cash policy along with the risks and benefits related with e- payment instruments. Consequently the paper highlighted that going cashless provides more benefits. Dalaïen (2017) highlighted the benefits of cashless economy with the help of questionnaire. The results revealed that cashless economy is not beneficial to the general public. Thakur (2017) studied and identified the different types of cashless mode and various opportunities in the market. Garg et al. (2017) studied the people views on cashless economy. The study showed that introduction of cashless economy in India could be seen as a step in the right direction for the proper growth and development in India. Kumari(2017) highlighted the objectives of visiting branches by going cashless. Also the study has focused on hurdles in making the economy cashless. Also the policies and directions had been suggested towards making an enabled cashless economy

Research Gap

Review of literature showed the clear understanding of various studies conducted on a cashless economy which had directly influenced the banking sector. From an Indian perspective, both positive and negative aspects of going cashless have emerged. The present study focuses on the impact of going cashless on banks through SWOT analysis.

Objectives

The objective of the paper is to study the impact of cashless economy on banks performance through SWOT analysis i.e. Strengths for banks during cashless economy, weakness of banks during cashless economy, Opportunities that banks can grab by going cashless and Threats that it can face during cashless. Also, some suggestions are also given for successful implementation of going cashless.

Research methodology:

This study is based on secondary data i.e. published articles, journals, papers, newspapers in order to study the concept of cashless economy and its impact on banks performance.

SWOT Analysis

Cashless economy means non-existence of cash i.e. all the transactions are done through cards, e-banking. When there is usage of debit cards, credit cards, net banking, e-wallets in the economy then cashless economy come into the picture. A strategic step for making a less cash economy is linkage of bank accounts with welfare activities. Banking base should be strong enough as it is the prerequisite of less cash society. But cashless economy had greatly influenced banking sector and this can be analyzed through SWOT Analysis.

Strength of banks during cashless economy:

There are various factors in the economy which encourages less cash society and consequently there will be positive impact on the performance of the banks.

- 1) Cashless economy has boosted up Jan Dhan Yojana Accounts: There will be an increase in i.e. in current or savings account which in turn boost up investment and the same will be profitable to the banks as well.
- 2) Promotion of banking literacy: For the purpose of depositing the banned currencies new bank accounts were opened that has spread banking literacy and connected the general public with banking network so that they may deposits
- 3) use more and more banking services and inturn will benefit the bank.
- 4) Strengthened the banking system: There are many banks which faces the problem of NPA(Non-Performing Asset). But going cashless increased the lending capacity of banks and banks can earn better profitable opportunities.

- 5) Key to financial inclusion: RBI has defined financial inclusion as "accessibility to a range of financial services at a reasonable cost". Many financial inclusion policies have been emerged like Pradhan Mantri Jan Dhan Yojana has potentially increased bank accounts of a majority of unbanked population. UPI(Unified Payment Interface) launched by RBI to enable digital money transfers. These Aadhar enabled transactions will develop e-banking habits among people who still believe in brick and mortar approach of banks.
- 6) Increase in profits for banks: Cashless means there will be more and more deposits in the banks. As a result there will be a decrease in cost of deposits for banks. Hence there will be a reduction in cost of lending too.
- 7) Faster transactions: With the adoption of cashless system queue at banking premises got reduced. Bank dealings with customers become easier. This proves to be beneficial to bank employees' i.e. proper management; less frustration among employees definitely has a positive impact on banking performance as transactions can be settled promptly. Also bank officials concentrate on the core areas.
- 8) Usage of cards (Debit and Credit cards): Banks lend money on purchases and that money paid back to the bank if there will be default in making payment bank charges interest at a high rate. Banks also charge fees on various transactions like cash advances. Fees are also charged in the form of penalties while crossing the credit limit. On the other hand debit card like ATMs are also beneficial to the banks. ATMs are one time investment for banks and they reduce per transaction cost which increases bank profit. Growing usage of these cards could compensate the lower revenues as Government has introduced tax sops on e- transactions.
- 9) Reduction of cost: Too much cost has been incurred to run traditional banks like staff costs, insurance etc. Banks can save around 60% on the cost through e-banking
- 10) Safer for the environment: Cashless society proves to be environmentally friendly as it reduces usage of paper and there would be no need to visit branches personally.

Weakness of banks during cashless

There are various factors in the economy which acts as a barrier in the implementation of cashless society and as a result it directly impacts the performance of banks both in rural as well as urban areas. These factors are:

- 1) Reduction in interest rates: As there will be increase in deposits due to demonetization a step towards cashless society. In the long run it affects the growth of banks.
- 2) Possibility of lesser profits: Government pass a proposal in order to reduce the interchange fee on debit and credit cards and tax sops are also provided on electronic transactions which had a severe impact on banks income and it automatically reduce the profits.
- 3) Digital divide: It is the discrepancy between people who have access to ICT (Information and Communication) tools and those who have not any access reason being lack of bandwidth an reach of technology to various locations in rural areas, less penetration of smartphones, unbanked areas due to non-availability of power, technological disruptions etc. All these leads to a digital divide between rural and urban. Consequently, banks in rural areas incurred tremendous losses.
- 4) E-illiteracy: Financial literacy and awareness for digital transactions are the first and foremost requirement for going cashless which lags behind in many areas either rural or urban as in rural areas majority of population is not falling under banking network and those who are using banking services still are not aware or illiterate in using e- services offered by the bank and the same happens in urban areas where people had adopted banking habits but the factors like generation gap leads to a great fall in using e-services which are the major barrier in going cashless and banks suffered therefrom as banks have to employ manpower for this traditional approach of people and incurred various costs on them.
- 5) Psychological shift: It is a bigger block to go digital. As still there is belief and culture among people to follow traditional banking and they settle their transactions by following a long queue in banks which inturn will slow down the banks business as employees engaged, spent their time with face to face dealings not possible within a slot like that by dealing in an online transaction. As cash is still a king, people still believe in carrying cash with them. Due to this psychological barrier banks may incur losses as the employees unable to pay attention on core activities of banks.

6) Fewer savings in banks: There would be a boost in consumption pattern as there will be no incentive for people who keep their money in the bank and people may favour more and more consumption and fewer deposits in banks and it will be of great loss to the banks.

7) Regulatory pressure: There will be an increase in regulations from Government side and banks spent a major part of their budget to comply with these rules and regulations.

8) Increased competition from financial technology companies: As finTech companies are disrupting the work of traditional banks as these banks are not able to cope up with the changes associated with technology, operations, and culture.

Opportunities for banks during cashless

Many opportunities arise by going cashless and banks grab these opportunities for their better performance. These are:

- 1) Increase in customer base: After demonetization move for making economy cashless it is compulsory to maintain an account with banks and it is beneficial to both public and private sector banks.
- 2) Separation of set-up team from traditional IT department structure as a result banks will engage with fin Tech startups and new technology will definitely bring new opportunities for banks.
- 3) Opportunity to enlarge business: Cashless economy offers multiple channels to banks for expanding its operations and in order to increase the banking business banks offer various channels to access banking services like ATMs, video banking etc. to general masses.
- 4) Technological innovation in Indian Banking: going cashless open a new door for banks as through technological revolution in the country banks offer new services, faster and easier transactions. For instance, National Payments Corporation of India (NPCI) launched UPI (Unified Payment Interface), cloud computing. Through this technological trend all transactions are done at a single window. So, technology brings transparency in the banking sector.
- 5) Competitive Advantage: With this growing technological trend, new entrants with their more agile and efficient structure has emerged out which increases the competitiveness and productivity of banks as a whole.

Threats for banks during cashless:

Banks are confronted with various challenges during this cashless phase. These factors are:

- 1) Losing rural customers: Due to lack of technological infrastructure rural people think digitization as a complicated procedure and they got frustrated this, in turn, leads to poor performance of the banks.
- 2) System architecture and design: For proper implementation of the cashless economy there is an urgent need for system architecture of various innovations. Banks may face risks due to the wrong choice of technology, inadequate control.

- 3) Lack of cyber security: Security has become a major issue in banks. Due to uncertainty and security concerns, a large group of customers refused to adopt e-banking facilities. Consequently, breach of security leads to direct financial loss in banks.
- 4) Transactional risk: These types of risks associated with internet banking. There will be an error in the processing of transactions, unauthorized access etc.

Findings and policy implication

The paper has assessed various facets of the cashless economy in banks. It has been seen that cashless transactions have its positive as well as negative impacts on banks. Cashless transactions are spreading all over India due to which banks earn profits and incurred losses. According to a report by Price Waterhouse Coopers(2015), India's unbanked population was 233 million approximately. So, the need of the hour is to end the digital divide and make rural people aware of the benefits of going cashless and make them tech-friendly. Also, Government has taken many steps to discourage the use of cash in the economy by launching UPI (Unified Payment Interface) which enables immediate money transfers between account holders of different banks. But still, rural segment believe in brick and mortar approach of banks. To avoid these approaches of rural people proper infrastructure, e-literacy should be approached in rural areas so that they got an easy access to this tech-friendly environment as a result banks in rural areas may get profitable opportunities.

For the promotion of digital banking system Self Help groups(SHG) can be of great help in the rural areas. Bank Mitras give their helping hand to the bank and bank's correspondence to extend digital economy in rural areas. Also, cyber threats have disrupted the path of cashless economy with many incidents occurred in banking system like hacking the sites or passwords etc. So, steps should be taken to avoid these attacks as they should be overcome by identifying security flaws, application security control, secure architecture etc. so that Banks may not run in losses by losing its customer base. RBI Payment and Settlement Vision document 2018 gives objectives and guidelines towards a cashless economy. RBI has put up several efforts to promote digital transactions. Also, private sector banks play a major role to move a step ahead towards digitization by extending their banking activities in unbanked and under-banked areas. This vision of RBI has emerged out 5C's i.e. coverage, convenience, convergence, cost which aims to build best class payment and settlement system for a cashless India.

Also, the steps of RBI towards digitization lead the banks to provide e-payment mode which is safe, convenient, secure, authorized and accessible. A Cashless economy is at the Center of the globe to accomplish the vision of making the country digitally revolutionized by converting it into a society which is digitally empowered through various modes of cashless transaction and digitally enabled.

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