

# Impact of Demonetization on Electronic Banking: An Analytical Study

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## Abstract

*This research investigates the multifaceted repercussions of demonetization on electronic banking, examining the transformative effects on financial systems and consumer behavior. Key components of the study include an assessment of the immediate and long-term impacts of demonetization on electronic banking adoption, transaction volumes, and security concerns. The analysis encompasses a comprehensive review of key financial indicators, regulatory changes, and technological advancements in the electronic banking landscape post-demonetization.*

**Keywords:** Demonetization, Electronic Banking, Financial Systems, Consumer Behavior, Transaction Volumes, Security Concerns, Regulatory Changes, Technological Advancements, Financial Inclusion, Digital Payments.

## 1. Introduction

### 1.1 Introduction of Electronic Banking

Online banking is also known as internet banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institutions website. The online banking system will typically connect to or to be part of the core banking system operated by a bank and is in contrast to branch banking which was the traditional way customers accessed banking services. Some bank operates as a direct bank (or “virtual banking”), where they rely completely on internet banking. Internet banking software provides personal and corporate banking services offering features such as viewing accounts balances, obtaining statements, checking recent transactions and making payments. Access is usually through a secure web site using a user name and password, but security is a key consideration in internet banking and many bank also offer two factors authentication using a (security token). Electronic banking is an umbrella for the process by which a customer may perform banking transactions electronically without visiting a brick and more institution. The following terms all refer to one form or another of electronic banking; personal computer banking, internet banking, virtual banking, online banking, home banking, remote electronic banking, phone banking. Pc banking and internet banking or online banking is the most frequently used designations. It should be noted, however, that the terms used to describe the various types of electronic banking are often used interchangeably. Many of the banks like ICICI, HDFC, industrial, IDBI, city bank, global trust bank, bank of Punjab and state bank of India were offering E-banking services. The analyst’s comments that India had a high growth potential for E-banking the payers focused on increasing and improving their E- banking services. As a part of these, bank design began to collaborate with functions online. Why is there a sudden increase of bank interest in the internet? The major reason is because of the improved security and encryption methods developed on the internet. The second reason is the banks did not want to lose a potential market share to banks that were quick to offer their services on the internet. E-banking is defined as the automated delivery new and traditional banking products and services direct to customers through electronic, interactive communication channels E-banking includes the system that unable financial institution customers individuals or businesses, to access accounts, transact business, or obtain information on financial product services through a public and private network include the internet, customer access E-banking

services using an intelligent electronic device. E-banking firstly introduced in India by the ICICI around 1996. There after many other banks like HDFC, SBI, IDBI, city bank trust bank, UTI, etc. Followed the service. As today and foreign banks as started capturing the market through E-banking hence “The competition is heating up and the lack of technology can make a bank lose a customer”. So now the public banks are breaking the shackles of traditional set up and gearing up to face the competition posted by the private sector counter parts.

### 1.2 Introduction of Demonetization

On 8 November 2016, the Government of India announced the demonetization of all Rs 500 and Rs 1000 banknotes of the Mahatma Gandhi Series. It also announced of new Rs 500 and Rs 2000 banknotes in exchange for the demonetized banknotes. The government claimed that the action would curtail the shadow economy and reduce the use of illicit and counterfeit cash to fund illegal activity and terrorism. The announcement of demonetization was followed by prolonged, which created significant disruption through the economy. People seeking to stand in lengthy queues, and several deaths were linked to the rush exchange cash. According to a 2018 report from the Reserve Bank of India, approximately 99.3% of the demonetized banknotes, or Rs 15.30lakhcrore the Rs 15.41lakhcrore that had been demonetized, were deposited with the banking system. The banknotes that were not deposited were only worth Rs 10,720crore leading analysts to state that the effort had failed to remove black money from the economy. The BSE SENSEX and NIFTY 50 stock indices fell over 6 percent on the after the announcement. The move reduced the country’s industrial production and GDP growth rate. Initially, the move received support from several bankers are well as from international commentators. The move was also criticized as poorly planned, litigation, and strikes against the government in several places across India. Debates also took place concerning the move in both houses of parliament.

### 1.3 Objectives of the Study

- To study the problems faced by the consumers in availing the internet banking services.
- Find the customer satisfaction relating to e-banking services.
- To access the satisfaction level experienced by the users of e-banking services.
- To highlighting on the security problems of online banking and how to reduce the issues with the help of security control tools.

### 1.4 Scope of the Study

Electronic banking also known as (EFT) electronic funds transfer user’s computers and electronic instruments and technologies as a substitute for cheques and other paper transactions. Electronic banking means 24-hour access to cash through an automated teller machine (ATM) or pay cheques deposited directly into checking or saving accounts. Customer can perform financial transaction like transfer funds online, pay bills, apply for loans and open a saving account among various other debit card transactions.

### 1.5 Need of the Study

Factors determining customer awareness towards the internet banking services.

To identify the customer perception about the internet banking services.

To trace the expectation of customer towards the internet banking services.

### 1.6 Limitations

They do not permit to meet any of the employees in their bank.

Easier for customers to mismanage their accounts due to the 24-hour service that will be available.

### 1.7 Review of Literature

**Vedasreemali:** In international journal of commerce and management research on demonetization: A step towards modified India: demonetization through it has created some positive and some negative impacts on different sectors but in long run it definitely will have positive impact in controlling black money and fake money.

**Zlatko.bezhoveski (2016):** In this research ‘the future of the mobile payments as electronic payment system’ he explains the need of M-commerce after the development of E- commerce and future of

adopting mobile device as payment code. E-commerce fostered digitalization in the payment processes with use of variety of electronic payment options. After introduction of mobile commerce, we get familiar with mobile wallets and its uses in payments methods by consumers expected that further developments in future of M-commerce. However, there are several barriers identified to the adoption of mobile payment method with the widely accepted payment method across the globe [1].

**Manpreetkaur (2017):** conducted a study on demonetization and impact on cashless payment system. He said that the cashless system in the economy has many fruitful benefits less time-consuming, less cost, paper less transaction etc. and he expected that the future transaction system in all the sectors is cashless transaction system [2].

**Lokesh Uke (2017):** research on demonetization and its effect in India. He studied positive and negative impact of demonetization in India. The study was based on secondary data available in newspaper, magazines etc. the main purpose of demonetization is to eradicate the black money and diminish the corruption [3].

**Swetasinghal (2017):** carried research on demonetization and E-banking in India. It was a case study to check the awareness level of people of rural areas in India about e-banking facilities and how much it has increased after demonetization [4].

**Naincyprajapati and Sanjeevkumarsingh (2017):** The research scholars describe in their study on ‘Impact of demonetization on online transactions’. That move of demonetization gives a new path to the Indian economy going towards the digital economy. India becomes a growth country after demonetization with a potential for the companies deals in E-commerce. The cash crunch in the economy cut down the cash on delivery order in the country and increase the online payments. After all this positive effects people are facing many problems during the cash crunch. This study finds out the effect of online transactions during the period of demonetization. India is country which is a cash dominant country, demonetization is great cause of facing problems in India due to suddenly a huge transformation from cash to non-cash [5].

**K. Sumavelly and K. HemaDivya-(2018):** In this study on “Digital payment in India with perspective of consumer adoption” they said that due to demonetization it’s resulted tremendous growth in digital payments. These transformations make a great change towards digital payment and make a more transparency in transaction which empowers the economy of the country. The purpose of this study is to get a research the impact of demonetization on adoption of online payments and digitization of payment system to analyses the level of adoption of digital payment system by the customers’ E-payment system are important mechanism used by the individual and organization as a convenient way of making payments over the internet and at a same time a gateway to technological advancement [6].

## 2. History of Electronic Banking

The precursor for the modern home online banking services were the distance banking services over electronic media from the early 80s. the term online become popular in the last 80s. and refers to the uses of a terminal keyboard and TV to access the banking system using a phone line “home banking” can also refer the use of numeric keypad to send tones down a phone line with instructions to the bank. Online services started in New York 1981 when four of the city’s major banks offer home banking services using the videotext these banking services never become popular except in France where the use of video text was subsidized by the telecom provider and the UK where the pestle system was used. The UK’s first home online banking services were set up by the Nottingham building society (NBS) in 1983. The system used on the UK’s pestle system and used a computer, such as the BBC micro, keyboard connected to the telephone system and television set. The system allowed online viewing of statement, bank transfers and bill payment. In order to make a bank transfers and bill payment, a written instruction giving details of the intended recipient had to be sent to the NBS who set the details up on the home link system. Typically, recipient were gas, electricity and telephone companies and accounts with other bank. Details of payment to be made were input into the NBS

system by the account holder via post. A check was then sent by NBS to the payee and an advice giving details of the payment was sent to the account holder. BACS was later used to transfer the payment directly. Stanford federal credit union was the first financial institution to offer online internet banking services to all of its members in Oct, 1994 [7].

### 2.1 Advantages of Electronic Banking

#### **Convenience:**

In this busy and hectic schedule, it is difficult for an individual to make time to visit bank for checking their account balance, interest rates, successful transfer of money, and any other update. Banking system has developed virtual banking system for customer convenience where an individual can access their banking system anytime and anywhere. Online banking system has provided an ease by providing 24 hours and 365 days services.

#### **Transfer services:**

The virtual banking system provides convenience to transfer money 24 hours in 365 days. You don't need to stick to perform any transaction within working hours as you can do as per your convenience in 24 hours.

#### **Monitoring service:**

The customer can access their updated passbook anytime for monitor their transactions to manage their financial plans.

#### **Online bills payment:**

You don't need to stand in queue for paying bills as it has feature to pay any kind of bill including electronic, water supply, telephone, and other bills.

#### **Quality service:**

Internet banking has improved the quality of service by providing them convenience to perform their transactions anytime during the day. The consumers are able to apply for loan, insurance, and any other services without visiting the banks physically which shows that the quality of e-banking is fast and effective.

#### **High liquidity:**

You can transfer money and utilize anytime which is the greatest advantage to access in internet banking. You don't need to visit banks for transferring money which can be done from anywhere without visiting to the banks physically.

### 2.2 Disadvantages of Electronic Banking

#### **Security issues:**

Internet banking is completely insecure as there are many problems related to the website and data can be hacked by the hackers. It can lead to financial loss to the users. The financial information can also be stolen that can also create financial loss.

#### **Lack of direct contact between customer and banking officer:**

Online banking requires effective customer service for handling issues faced by the user. But lack of customer support creates disappointment among the customers. There are some online payments which may not be reflected in the system due to technical issues. It also creates insecurity among the customers services executive is a barrier in online banking.

#### **Transaction problem:**

During online banking there are various issues faced by the user such as transferred payment is not reflected, payment failed, and other issues due to technical support.

#### **Long procedure to access e-banking:**

In some countries, government bank is providing internet banking by the filling the internet banking form then after approval you can access security password to log in. An individual need to download the app of specific banking then all credentials needs to be filled for login successfully.

#### **Training and development:**

The banks need to conduct training and development program for employees for providing quality online service which enhance the customer experience. It requires huge investment to train them for

providing effective services.

### 3. Benefits of Cashless Economy

- Reduced instances of tax avoidance because it is financial institutions based economy where transactions trails are left.
- Curb generation of black money.
- IT will reduce real estate prices because of black money.
- It will place universal availability on banking service to all as no physical infrastructure is needed other than digital.
- There will be greater efficiency in welfare programs as money is wired directly into the accounts of receipts.
- Reduced cost of operating ATMs.
- Speed and satisfaction of operations for customers as no delays and queues, no interactions with bank staff required [8].

#### 3.1 Digital Transaction Platform

**UPI:** unified payment interface allows you to make payments using your mobile phone as the primary device for transaction, through the creation of a ‘virtual payment address’, which is an alias of your bank account. UPI was launched by the national payment corporation of India.

**BHIM App:** The Bharath interface for money (BHIM) is an initiative by the govt. to enable fast, secure and reliable cashless payments through mobile phones. BHIM is Aadhar enabled, interoperable with other unified payment interface applications and bank accounts, and has been developed by the national payments corporation of India (NPCI). This is the government's move towards digital payments after the demonetization that resulted in the scrapping of high value Rs.500 and Rs. 1000 currency notes.

**Aadhar pay:** There are lots of payments apps in a market these are the UPI apps, SBI pay, payment, phone pay, free charge, mobile wallet etc. but, the other payment app is special as you can pay through the Aadhar payment app without phone. It is possible because you the customer does not require the app. The merchant or a person who wants money, has to arrange a smart phone, app, etc. the payer doesn't require anything. This app is made for the merchants and shopkeepers. Customer would only enjoy its benefits. The Aadhar payment app uses your fingerprints for the authentication. On the basis of this authentication, the money is paid from your Aadhar linked account

**IMPS:** Immediate payment service (IMPS) is an instant internet banking electronic fund transfer service through mobile phones. It is also being extended through other channels such as ATM internet banking, etc.

**Pay tams:** The after effect of demonetization is vivid across the country but after this bold & effective step by the government, online payment industry is seeing a huge growth. Among all of the players in this vertical, paytm is the front-runner, as per the record till now. The recent update is really astounding. Paytm has touched a great height in terms of transaction volume. According to the report, it has hit 5 million transactions in a single day & processing over Rs. 24000 crores.

**POS terminals:** a point-of-sale (POS) terminal is a computerized replacement for a cash register. Much more complex than the cash registers of even just a few years ago, the POS system can include the ability to record and track customer orders, process credit and debit cards, connect to other systems in a network, and manage inventory. Generally, a POS terminal has as its core a personal computer, which is provided with application-specific programs and I/O devices for the particular environment in which it will serve

**USSD:** USSD (unstructured supplementary service data) is a global system for mobile (GSM) communication technology that is used to send text between a mobile phone and an application program in the network. Applications may include prepaid roaming or mobile chatting [9].

#### 3.2 Challenges of a Cashless Rural Economy

**Currency dominated economy:** High level of cash circulation in India. Cash in circulation amounts to around 13 percent of India's GDP.

**Transactions are mainly in cash:** Nearly 95 percent of transactions take place in cash. Large size of informal/unorganized sector entities and workers prefer cash based transactions. They don't have required digital literacy.

**ATM use is mainly for cash withdrawals and for settling online transactions:** There are large numbers of ATM cards including around 21 cr. Rupaya cards. But nearly 92 percent of ATM cards are used for cash withdrawals. Multiple holding of cards in urban and semi-urban areas show low rural penetration.

**Limited availability of points of sale terminals:** According to RBI, there are 1.44 million POS terminals installed by various banks across locations at the end of July 2016. But most of them remain in urban/semi-urban areas.

**Mobile internet penetration remains weak in rural India:** For setting transactions digitally, internet connection is needed. But in India, there is poor connectivity in rural areas, In addition to this, a lower literacy level in poor and rural part of the country, make it problematic to push the use of plastic money on a wider scale. This is being overcome by application BHIM (Bharat interface for money) launched by the prime Minister which will work on USSD i.e., without mobile internet.

**Demonetization crippled rural bank lending:** The note ban hurt rural India, loan growth was far below its pre-demonetization levels. Indeed, in the second half of FY2017, bank lending to rural Haryana, Punjab, Goa, Maharashtra and Kerala contracted. Lending to rural Maharashtra fell by as much as 9.2%. Putting that in perspective, banks loans in the second half of FY16 to rural Haryana increased by 18% and to rural Punjab by 12.2%, while rural Maharashtra saw an increase in lending of 5.8%. Not a single state had showed a contraction in rural lending in the second half of FY16. In order to words, the slowdown in rural lending in the second half of FY16 was very abnormal and may be attributed largely to demonetization [10].

## Conclusion

From the above findings the am concluded that the demonetization undertaken by the Indian government in a large concern. Due to that the public turns to cashless transaction that is internet banking. It reaches high success rates through co-ordination. It will be benefit to nation and other side it's going towards digital economy may bring the transparency in the system. Internet banking brings easy and convenient method of banking to customers but the same at the same time customers are facing problems due to the limit of withdrawal and it is difficult to illiterate people to use and for safety reasons also some respondents are hesitate to use internet banking, in spite of all these reasons majority of the respondents have been using internet banking. To increase more number of internet user's government and RBI should also take initiatives by bringing awareness among the customers and taking safety measures.

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