



**ORIGINAL RESEARCH PAPER**

**Management**

**PARADIGM SHIFT IN INDIAN BANKING SYSTEM –MOVING FROM CASH TO NON CASH AND CHEQUE TO DIGITAL!**

**KEY WORDS:**

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**ABSTRACT**

Indian banking sector is poised with efficacy for robust growth which will play pivotal role in flourishing Indian economy. This was proved by SBI after merging with five associates banks and securing 52nd rank among the banks in world by assets. Indian Banking sector has the potential to become the fifth largest banking industry in the world by 2020 and third largest by 2025 (KPMG-CII report). The Indian Banking industry is currently worth Rs. 81 trillion (US\$ 1.31 trillion) and it is expected to cross US\$ 28.5 trillion in FY25. Banks are using latest technologies to provide valuable, cost efficient and timely services to customers. The Prime Minister of India Mr. Narendra Modi addressed Indians on Mann Ki Baat, "Learn how this digital economy works". Let us bank on bank and join hands to enjoy the digital world and to boost the cashless economy of India!

"India will move quite rapidly to a digital payments economy in as little as seven years, based on the introduction of digital payment banks combined with other things like direct benefit transfers, universal payments interface and Aadhaar"-Bill Gates, co-founder of Microsoft Corporation

"*Paisa bolta hai*", Currency notes are symbolic of the sumptuous heritage of country. To showcase the cultural diversity and technological advancement, a new series of notes in new design have been launched which are different in colour, size, and theme. New elements have been added in the new series of currency which show numerals in Devnagri embarked with logo of Swachh Bharat. The current series of bank notes have convoluted security features like water mark, security thread, latent image of denomination numeral, denomination numeral in colour shifting ink, number panels, electro-type, and bleed lines. De facto, the new series of bank notes are symbolic of vivid colours of exquisite heritage of India and technological advancement. Indian Banking system has ameliorated leaps and bounds from evolution of banking system to post demonetisation. This article throws light on the paradigm shift of Indian Banking system from cash to non cash and cheque to digital economy. Welcome to the world of digital banking system, marching from cash to non cash, and cheque to digital system!

**INTRODUCTION:**

Today, the network of Indian banking system comprises of 27 public sector banks, 26 private sector banks, 46 foreign banks, 56 regional rural banks, 1,574 urban cooperative banks and 93,913 rural cooperative banks, in addition to cooperative credit institutions. (Source: IBEF). The evolution of Indian banking system can be viewed as three phases, early phase, nationalisation, and new phase.

**Early phase (from 1786 to 1969):**

The General Bank of India was set up in the year 1786 followed by Hindustan and Bengal Bank. The independent units of Bank of Bengal (1806), Bank of Bombay (1840) and Bank of Madras (1843) was established by East India Company and called as Presidency Banks which were amalgamated in 1921. Allahabad Bank was established in 1865, Punjab National Bank in 1894. Between 1885 and 1913, Bank of India Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up whereas the central bank, Reserve Bank of India came into existence in 1935. It was vested with power of supervision of banking sector in India. The growth of banking sector was very slow during the first phase and it experienced periodic failures between 1913 and 1948. Government of India came up with the Banking Companies Act, 1949 which was later changed to Banking Regulation Act, 1949

**Nationalisation of Indian Banks:**

Major reforms were undertaken by Government of India after independence. State Bank of India was established to act as

the principal agent of RBI and to handle banking transactions of the Union and State Governments all over the country. Seven banks forming subsidiary of State Bank of India were nationalised on 19th July 1959. In 1969, 14 major commercial banks in the country were nationalised. Second phase of nationalisation in Indian Banking Sector Reform was carried out in 1980 with six more banks. Nationalisation of banks brought 80% of the banking segment in India under the ownership of Government. Government of India formulated several acts to regulate banking institutions in country like Enactment of Banking Regulation Act 1949.

**SNAPSHOT ON GROWTH OF BANKING INDUSTRY IN INDIA:**

**MOVEMENT FROM CHEQUE TO DIGITAL**

An efficient payment and settlement system is vital for the growth of economy. Paper transactions consumes time and costlier and do not suffice to hassle-free and cost effective payment system. To strengthen the payment system RBI introduced the system of electronic clearing services (ECS) and electronic fund transfer (EFT) in 1995, RTGS in March 2003, NEFT in November 2005.

**Increase in NEFT transactions:**

Reserve Bank of India has been promoting the reduction in use of cheque and encouraging electronic payment system. With effect from April 1, 2008 RBI mandated the use of electronic modes of payment for transactions above ₹10 Million which was further reduced to ₹ 1 Million from August 1, 2008.

There are four categories of non-cash interbank payment systems, paper-based, retail electronic payment systems, cards at point of sale (POS) terminals and the RTGS. RBI introduced an electronic funds transfer system and electronic clearing services (ECS Credit and Debit) in the 1990s. National electronic fund transfer (NEFT) system was introduced in November 2005.

**Real time gross settlement:**

Real time gross settlement is the settlement process where transactions are settled as soon as they are processed without any waiting period. This is used for high value transactions requiring immediate clearing. RTGS payments have increased in value and volume since 2012. However, the value was somewhat lower for year 2014 than 2013 after that it increased. The volume of RTGS transactions was highest among other non cash payments after demonetisation.

**Inter-bank mobile payment service:**

Interbank Mobile Payment Service (IMPS) is an instant interbank electronic fund transfer service with the help of mobile phones. Interbank Mobile Payment Service is regulated by National Payments Corporation of India (NPCI). IMPS services work for customer to customer payments and

merchant payments. Customers can make transactions up to Rs 50,000 through IMPS every day. For merchant payment, there are two types of transactions- customer initiated transaction (P2M or PUSH) and merchant initiated transactions (M2P or Pull). The customer initiates transaction through the Bank's mobile banking application or SMS facility provided by the Bank in customer initiated transaction or PUSH. In merchant initiated transaction, the transaction is initiated through merchant application such as Merchant website, WAP site, IVR or mobile application.

**MOVEMENT FROM CASH TO NON CASH:**

The payment eco-system in India is gradually moving from a purely cash and cheque-based scenario to electronic payments. Debit cards and credit cards provide facilitates online electronic payments at the ease of customers and faster mode of payment. The uses of credit cards enable the customers to "Use first and pay later". Banking sector has realised remarkable growth in the use of credit cards and debit cards as means of payments by the customers in new phase of this sector.

Year	CREDIT CARD			DEBIT CARD		
	Number of transactions			Number of transactions		
	Number of cards outstanding	ATM	POS	Number of cards outstanding	ATM	POS
2014	19884624	337585	50174185	432795287	592422384	64791285
2015	22590856	475674	62403815	603512766	654822356	89958797
2016	26856758	602388	77928467	728195958	742134866	125190417
2017	33342644	654546	112632229	819762867	717864903	265296352

(Source: Reserve Bank of India database)

**Effect of Demonetisation on movement from cash to non cash:**

The progress in payment systems for the financial year 2016-17 can be grouped into three phases, pre-demonetisation period from April 2016 to October 2016, demonetisation period from November 2016 to March 2017, and post-demonetisation period from April 2017 to August 2017. Demonetisation impacted the inter-bank payment and settlement systems significantly in shifting the cash payments to non-cash modes of payments. The increased usage of these three instruments during the demonetisation period has been sustained in the post-demonetisation period.

Period	IMPS (in billions)	RTGS (outward in billions)	Credit card (POS) in billion	Debit card (POS)	NEFT (inward credit, in billions)	ATM (in billions)
April 2016	524.83	68411.27	227.24	148.03	8324.52	2252.09
October 2016	1139.41	76473.29	299.42	219.41	9504.50	2547.81
March 2017	1730.88	123375.83	333.90	356.99	16294.50	2259.45
August 2017	799.13	89163.39	362.98	354.12	12500.38	2352.95

(Source: Reserve Bank of India database)

The monthly average of payments during pre-demonetisation, demonetisation and post monetisation period gave the following results:

Payment category		Monthly average		
		Pre-demonetisation	Demonetisation	Post demonetisation
Cheque	Volume	88.5	119.8	97.45
	Value	6,623.86	7,095.49	6,819.41
Retail electronic payments	Volume	306.93	391.57	432.04
	Value	9,087.21	12,950.59	13,808.39
Card at POS	Volume	192.53	406.56	373.18
	Value	309.37	726.52	714.29
RTGS	Volume	8.49	9.54	9.73
	Value	74410.61	87,531.27	89,561.59

(Source: Reserve Bank of India report)

Year 2016 proved to be a rollercoaster year for Indian banking and it was like a nightmare when India went for replacing existing Rs 1000 and Rs 500 currency notes, around 86% of the total currency in circulation at that time and equivalent to more than 10% of the country's gross domestic product. The demonetisation could not be made effective without efficient working of banking system. It acted as a regulator to fight black money, and fake currency. World Bank report outlines that the demonetisation will have positive effect on the health of Indian economy rising growth to 7.6% in fiscal year 2018.

**CONCLUSION**

Indian banking sector is poised with efficacy for robust growth which will play pivotal role in flourishing Indian economy. This was proved by SBI after merging with five associates banks and securing 52nd rank among the banks in world by assets. Indian Banking sector has the potential to become the fifth largest banking industry in the world by 2020 and third largest by 2025 (KPMG-CII report). The Indian Banking industry is currently worth Rs. 81 trillion (US \$ 1.31 trillion) and it is expected to cross US\$ 28.5 trillion in FY25. Banks are using latest technologies to provide valuable, cost

efficient and timely services to customers. The banking sector is using even social media platform like Facebook to attract customers. ICICI bank launched Facebook bill payment and fund transfer service called 'Pockets' in September 2013. Several banks like HDFC, ICICI and AXIS have been exploring to launch contact-less credit and debit cards in the market. The cards which will use near field communication (NFC) mechanism and it will enable the customers to make transactions without inserting or swipe of cards. National Bank for Agriculture and Rural Development (NABARD) has planned to provide around 200,000 POS machines in 100,000 villages and distribution of RuPay cards to over 34 million farmers to promote cashless transactions. The total number of accounts opened since January 2015 increased to 295.2 million as on August 16, 2017 under Pradhan Mantri Jan Dhan Yojna. There is relentless push by the government for a cashless economy and it has been made possible with efficient the banking system. The Prime Minister of India Mr. Narendra Modi addressed Indians on Mann Ki Baat, "Learn how this digital economy works. Learn the different ways you can use your bank accounts and internet banking. Learn how to effectively use the apps of various banks on your phones. Learn how to run your business without cash. Transferring money on mobile is easier than sending jokes on Whats app."

He thanked banks for their services and patience during demonetisation. Let us bank on bank and join hands to enjoy the digital world and to boost the cashless economy of India!

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