

## Impact on Digital Banking after Demonetisation

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### Abstract

The automation of conventional banking services using a digital platform is known as digital banking. Digitally enabled banking system offers several benefits to banks as well as to customers. Financial firms that provide digital banking services online eliminate needless paper documents like demand drafts, pay stubs, and cheques the process of depriving a monetary unit of its status as legal tender is known as Demonetisation. Demonetization, to put it simply, is the process through which the notes that have been demonetized are no longer recognised as legitimate money for any type of transaction. Following the process of demonetisation, the old money is substituted with a new one that could have a higher or same denomination. Data are collected from primary sources and secondary sources i.e. direct observation, Indirect personal investigation, Interview, questionnaires, Survey, Books, magazines, Journals, NEWS papers, Religious books, Encyclopedia &Dictionary, Conference papers, Thesis etc. Sample size is used in this research 300 and Kruskal wallis test, ANOVA& paired t test used in this research paper. The empirical result was calculated using SPSS 26.0.

**Keywords:** Digital Banking, Demonetisation, ATM, SBI, PNB, BOB, ICICI BANK, AXIS BANK, HDFC, NEFT etc.

### 1.1 Introduction

The automation of conventional banking services using a digital platform is known as digital banking. Digitally enabled banking system offers several benefits to banks as well as to customers. Financial firms that provide digital banking services online eliminate needless paper documents like demand drafts, pay stubs, and cheques. All you need is a computer or a smartphone to access all financial services offered by digitally enabled banks, eliminating the need for in-person bank branch visits. Digital banking is the term for banking that is conducted entirely online using a digital platform. Online banking services are referred to as "digital banking." With the government's goal of a cashless economy and quick progress in expanding internet access across the country. Followings are the digital banking services as Obtain bank statement, Transfer of funds, Mobile Finance, Managing cheque, banking, Cash withdrawals, Bill payments and Monitor transaction cost etc.

The process of depriving a monetary unit of its status as legal tender is known as:

Demonetisation. Demonetization, to put it simply, is the process through which the notes that have been demonetized

are no longer recognised as legitimate money for any type of transaction. Following the process of demonetisation, the old money is substituted with a new one that could have a higher or same denomination. The economic transactions that occur inside an economy are greatly impacted when a currency unit's legal tender status is altered.

Demonetization has the potential to destabilise an economy or assist in resolving current issues. A nation will often implement demonetization for a variety of reasons. The process of taking out of circulation current cash, such as coins and bank notes, and substituting it with new money is known as demonetization. A currency effectively loses all its value when a government demonetises it because it is no longer accepted as legal money. Demonetization may occur for several reasons, such as altering the national currency or phase-out of antiquated payment methods. Several countries have implemented currency demonetisation strategies, with differing degrees of success. India has already experienced three instances of demonetization: in 1946, in 1978, and in 2016. Let's examine each of the three occurrences.

#### • Demonetization in 1946

The first demonetisation took place in 1946, when the

Rs.1000 and Rs.10,000 denominations were taken out of circulation. Since the public was not able to access larger value banknotes, the demonetisation had a distinctly little impact. These notes were reintroduced in 1954 with an extra 5,000 denomination.

#### • **Demonetization in 1978**

When India's second demonetisation occurred in 1978, Morarji Desai was the country's prime minister. The denominations of 1000, 5000, and 10,000 were removed from circulation during the second demonetisation. Reducing the amount of black money in circulation throughout the nation was the main goal of demonetisation. Morarji Desai made the news over the radio.

#### • **Demonetization in 2016**

Prime Minister Narendra Modi declared the most recent demonetisation on November 8, 2016. The 500 and 1000 denomination notes were removed from circulation during this demonetisation. Following the demonetisation of old currency, PM Modi also instituted new denominations of 500 and 2000.

### 1.2 Objectives of the Study

Following are the objectives of the study:

1. To study different problems and operational risks involved in digital banking services after demonetisation.
2. To study and understand the challenges and obstacles which are affecting the development of Digital banking after demonetisation in India.
3. To make recommendations and suggestions for increasing the awareness of digital banking among people

### 1.3 Hypothesis of the Study

Following are the hypothesis of the study:

**NH1:** There is no significant difference between banks and the usage of digital banking services.

**AH1:** There is a significant difference between banks and the usage of digital banking services.

**NH2:** There is no significant difference between demonetization and adoption of digital banking services.

**AH2:** There is a significant difference between demonetization and adoption of digital banking services.

### 1.4 Importance of the Study

Indian banks now face fierce competition from international and next generation institutions.

The banking sector in India saw significant changes following the demonetisation of currency, which can be attributed to the progress of information technology. Because of this, clients are growing more and more demanding, and banks can meet their needs thanks to the widespread use of technology. After demonetisation, there has been some difference in the services offered by banks due to the rise of digital banking services. Studying the characteristics, expansion, and scope of digital financial services as well as their effects on operational effectiveness and service quality is now essential. There hasn't been much research done on digital banking in India, despite the growing significance of these services.

Much of the research was carried out at the national and international levels, but not much focus has been placed on the viewpoint of the customers.

## 2. Review of Literature

Nagdev, Rajesh & Misra (2021) in their research investigated that how demonetisation influences the use of IT-enabled banking services (ITeBS) as a mediator. The study added the

behavioural intention and real ITeBS usage to the idea of technological ready (TR) (Parasuraman and Colby, 2015). The study investigates the functional relationship between TR, behavioural intention, and actual usage. It is based on the idea of TR and takes the impact of demonetization into account. On a collection of 474 useable responses, structural equation modelling and mediation analysis are performed. The study demonstrates that customers' intentions to utilise ITeBS are significantly influenced by TR. The relationship model is fully mediated by the demonetization variable, indicating a noteworthy discovery in the literature on consumer acceptability. This study suggested three important Ramifications. The banks should prioritise offering an easy-to-use ITeBS interface and continuous access to it. Offering a service trial to customers is an essential way to educate them. Moreover, social media platforms can be employed as a proficient and successful instrument for addressing customer grievances.

Sivaram & Satheesh (2021) studied that the demonetization of cash on November 8, 2016, has led to a rise in the demand for digital banking services. The primary cause of this is the unanticipated financial catastrophe brought on by currency demonetization. Thus, it sparked a fresh digital revolution in the financial sector. Digital banking has offered a better experience than traditional financial services distinct experience for its clientele. A significant number of users were compelled to utilise digital banking services due to the demonetization of money. Thus, by using samples from Kerala Gramin Bank and State Bank of India customers, this descriptive study aims to highlight the significant danger that banking consumers perceive in the financial services and the wild adoption of digital banking because of currency demonetization. This study clarifies many facets of customers' perceived risk to examine the impact of consumers' readiness to accept innovation and their overall perceived risk on the uptake of digital banking services.

Lalwani & Lalbeg (2022) explained in their paper that today's world moves quickly, and the financial system keeps up with it by utilising cutting-edge technologies and sophisticated banking products. Using cutting-edge technologies and financial instruments, digital banking is a novel concept in the field of electronic banking. During the latter two decades of the 20th century and the first part of the 21st, banking operations underwent a transformation from manual ledgers to advanced ledger posting machines (ALPMS) to core banking systems (CBS). Without digitization, the banking industry would find it extremely difficult to operate in today's technologically advanced world where cashless banking is a need. The purpose of the study is to gauge consumer satisfaction with digital banking platform use as well as customer awareness of using digital banking products in India. According to the report, consumers have utilised a variety of digital banking products in a way that is both acceptable and convenient, saving them time.

Pandey (2022) explained in their paper that driven by contemporary governmental measures and technology advancements, India's digital payment infrastructure presents a bright future. The use of digital payments has increased significantly throughout the nation during the past few decades. The transfer of value from one payment account to another via a digital device, like a computer, POS, or mobile phone, and a digital communication channel, like mobile wireless data or SWIFT, is referred to as a digital payment, sometimes known as an electronic payment. The most popular digital payment methods utilised by the nation's residents

include credit, debit, and prepaid cards; mobile money; and bank transfers. With the introduction of UPI in 2016 and the launch of IMPS by NPCI in 2010, the digital payment system underwent multiple evolutions. This study aims to examine the historical evolution of digital payment methods and the effects of COVID-19 on digital payment systems in India.

According to the study's findings, digital payments saw a strong 26.2% increase in volume in India in 2020-21, building on a 44.2% increase the year before. Finally, it has been noted that following the COVID-19 epidemic, individuals switched to this mode due to fears of cash transactions and health laws. This led to an increase in the use of various digital payment systems.

Bhatt, Shaikh, & Patel (2023) in their study found that provision of Payment service is undergoing a radical transformation thanks to digital innovation. Numerous facets of our lives have been modernised by information technology, and there has been a slow but steady transition from traditional to digital banking, which is made up of varying levels of digital banking service. Everyone may now do paperless banking thanks to the arrival of technology.

Technology development has had a major impact on the expansion of the banking industry.

Banking transactions used to take a lengthy time. It was expected of customers to possess physical documentation of their banking history or transactions. Understanding banking foundations is a prerequisite to understanding how the industry will evolve in the digital age.

The adaption and impression of the bank's digital payment system are examined in this paper.

The purpose of the study is to find out how consumers feel about using digital banking to pay for goods, how they pay for things online, what issues they run into while making transactions online, and how satisfied they are with the services provided by digital banking.

500 people make up the descriptive sample size of the study. ANOVA was utilised for testing hypotheses, while a questionnaire served as the data gathering tool.

### 3. Research Methodology

Data are collected from primary sources and secondary sources i.e. direct observation, Indirect personal investigation, Interview, questionnaires, Survey, Books, magazines, Journals, NEWS papers, Religious books, Encyclopedia &Dictionary, Conference papers, Thesis etc. Kruskal wallis test, ANOVA & Paired t test are used in this research paper. Sample size is 300. The empirical result was calculated using SPSS 26.0.

### To find out the Difference between Banks and the Usage of Digital Banking Services

The objective of this hypothesis is to check the differences of the usage of digital banking services between the banks. Here the researcher has collected data from 6 different banks, out of which three of them are public sector banks and the rest three of them are private sector banks. The three public sector banks are State Bank of India (SBI), Punjab National Bank (PNB) & Bank of Baroda (BoB) and the three private sector banks are HDFC Bank, ICICI Bank & Axis bank. The differences of the banks in digital banking services for the customers are measured in terms of tangibility, reliability, assurance, responsiveness & empathy.

The null & alternate hypothesis framed for this objective is:  
**NH<sub>1</sub>:** There is no significant difference between Banks and the usage of digital banking services.

**AH<sub>1</sub>:** There is significant difference between Banks and the usage of digital banking services.

To prove this hypothesis, data was collected on ranking system from 1 to 6 from the respondents. Likert scale. The respondents were asked to rank the banks based on their perception for six banks from 1 to 6. The 6-point scale varies from best to worst. Here Kruskal Wallis test is used to find out any difference between the banks. The differences were ranked based on four factors.

The responses of the questionnaires were recorded on likert scale so the researcher applied the Kruskal-Wallis test to find the differences between the responses among six selected banks. The Kruskal-Wallis's test is a non-parametric alternative to the one-factor ANOVA test for independent measures. It relies on the rank-ordering of data rather than calculations involving means and variances and allows you to evaluate the differences between three or more independent samples (treatments).

### The Empirical Result was Calculated Using SPSS 26.0 Which was Mentioned Below

Table 1: Kruskal-Wallis test results

H-Statistic	N	Degree of freedom	P-Value	Result
70.2235	300	2	0.0000*	Significant

\*Significant at 1% level

The result of Kruskal-Wallis test is clearly indicates that there is significant difference in perception of customers towards different banks on the basis of four factors. So, in this case null hypothesis is rejected that "**NH<sub>1</sub>:** There is no significant difference between Banks and the usage of digital banking services". So, it can be concluded that there is a significant difference in the usage of digital banking services of customers between different banks towards selected banks.

Based on the results of Kruskal-Wallis test, Out of six banks, the HDFC Bank customers are most used bank by their customers for digital banking services and customer of Bank of Baroda is least used bank by their customers for digital banking services.

To find out the difference between adoption of digital banking services pre and post demonetization.

The objective of this hypothesis is to check the difference between adoption of digital banking services pre and post demonetization. Here the researcher has collected data from 6 different banks, out of which three of them are public sector banks and the rest three of them are private sector banks. The three public sector banks are State Bank of India (SBI), Punjab National Bank (PNB) & Bank of Baroda (BoB) and the three private sector banks are HDFC Bank, ICICI Bank & Axis bank. Data was collected by the respondents on the adoption of their digital banking services pre and post demonetization.

### The Null & Alternate Hypothesis Framed for this Objective is

**NH<sub>2</sub>:** There is no significant difference between demonetization and adoption of digital banking services.

**AH<sub>2</sub>:** There is a significant difference between demonetization and adoption of digital banking services.

To prove this hypothesis, data was collected on dichotomous scale on the usage of digital banking services pre and post demonetization and paired sample t-test was used. T-test is a parametric test which tells how significant the differences

between groups are. The significance of the difference between the means of comparable groups has been computed by using 't' test. Here, we used paired t-test to check the effect of demonetization on adoption of digital banking services.

### The Result Analysis is Shown Below in Table

**Table 2:** Paired t-test for difference between scores of adoptions of digital banking services before and after demonetization

Factor	Variables	N	M	SD	t	P
Demonetization	Before Demonetization	300	0.15	1.09	-6.493	0.0000*
	After Demonetization	300	0.85	2.41		

\*Significant at 5% level

Table no. 6.12 compares the differences between scores of before and after demonetization on adoption of digital banking services by the respondents of all banks.

On the other hand, the t-ratio between scores of before & after demonetization on adoption of digital banking services by the respondents of all banks is -6.493 and p-value is 0.000 which is statistically significant at 5% level of significance. It means null hypothesis is rejected and alternate hypothesis is accepted for adoption of digital banking services by the customers of all the banks. Thus, this demonetization has a significant effect on adoption of digital banking services by the respondents of all banks.

Thus, the alternate hypothesis that "There is a significant difference between demonetization and adoption of digital banking services" is accepted for all private and public banks. This implies that demonetization has played a major role in the popularity of digital banking services among the bank customers in India.

### 4. Finding of the Study

#### Findings of the Difference between Banks and the usage of Digital Banking Services

- The objective of this hypothesis is to check the differences of the usage of digital banking services between the banks. Here the researcher has collected data from 6 different banks, out of which three of them are public sector banks and the rest three of them are private sector banks. The three public sector banks are State Bank of India (SBI), Punjab National Bank (PNB) & Bank of Baroda (BoB) and the three private sector banks are HDFC Bank, ICICI Bank & Axis bank.
- The differences of the banks in digital banking services for the customers are measured in terms of tangibility, reliability, assurance, responsiveness & empathy.
- It is found that there is a significant difference in the usage of digital banking services of customers between different banks towards selected banks.
- Based on the results of Kruskal-Wallis test, Out of six banks, the HDFC Bank customers are most used bank by their customers for digital banking services and customer of Bank of Baroda is least used bank by their customers for digital banking services.

#### Findings of the Difference between Adoption of Digital Banking Services Pre and Post Demonetization

- The objective of this hypothesis is to check the difference between adoption of digital banking services pre and post demonetization. Here the researcher has collected data

from 6 different banks, out of which three of them are public sector banks and the rest three of them are private sector banks. The three public sector banks are State Bank of India (SBI), Punjab National Bank (PNB) & Bank of Baroda (BoB) and the three private sector banks are HDFC Bank, ICICI Bank & Axis bank. Data was collected by the respondents on the adoption of their digital banking services pre and post demonetization.

- This demonetization has a significant effect on adoption of digital banking services by the respondents of all banks.
- The alternate hypothesis that "There is a significant difference between Demonetization and adoption of digital banking services" is accepted for all private and public banks.
- This implies that demonetization has played a major role in the popularity of Digital banking services among the bank customers in India.

### 5. Conclusion and Recommendation of the Study

Digital banking prevents black money from flowing freely by encouraging a cashless culture, which allows the government to monitor financial transactions. Over time, digital banking is anticipated to reduce a currency's minting requirements.

Increased productivity, lower operating costs, quick settlement, and large transaction volumes are some obvious outcomes of an e-banking setup that led to satisfied customers. As digital banking has grown, there are now fewer middlemen, more transparent data, and other ways to obtain intellectual property. These all have a beneficial effect on operating expenses and speed up and simplify transactions.

2016 demonetization initiative by the Indian government led to a significant shift in the nation's payment system to digital ones. Due to a cash crisis brought on by the demonetization of high-denomination banknotes, people began using digital payment options. India has experienced a notable surge in digital payment transactions since that time. The Reserve Bank of India (RBI) reports that there were 40,10,000 digital transactions in India in November 2020, up from 2,80,000 in November 2016-a rise of more than 1400%.

ATM is the most popular tool of e-banking services. The second most popular source of e-banking is mobile banking. Almost 40% respondents are using mobile banking for availing e-banking services in Dumka. The third most popular source of e-banking services is internet banking. In dumka, approx. 33% people are using internet banking for availing e-banking services. Only 31% respondents are such that who are using all the above-mentioned sources for availing e-banking services in Dumka district.

It is concluded that there is a significant association between place of residence and usage of digital services.

It is concluded that there is a significant difference in the usage of digital banking services of customers between different banks towards selected bank there is a need to increase services at ATMs. The other functions may be added so that it will be more useful for customers.

Increase customer service efficiency by offering better services, educating customers about financial literacy, and enhancing flexibility, high-quality services, and online banking options.

Banks should be friendlier in helping and solving the common public queries and banking employees should be more cooperative and Technology should be used in a good way.

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