

Study the Payment preferences of bank customer in India just before and after Demonetization

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Abstract

The Apex bank of country has been encouraging reform especially in payment system by leveraging the benefits of technology. Policy makers and bankers are giving emphasis on stress on the need of grater adoption of electronic payment and “less-cash” society. This has been further enforced after the demonetization. This paper examines the purpose of demonetization, cash circulation, and cash preference of consumer over card along with the bottleneck for using card. The secondary data has used for study purpose which was collected from actual transaction as well as survey. This paper also attempt to discuss part of ecosystem for moving from cash to cash-less.

Key Words: *Demonetization, Card Vs Cash Transactions, Payment preferences, Customer Preferences of using cash.*

Introduction

Almost all developed economies with high degree of financial inclusion are characterized by more usage of electronic instruments and plastic money than the cash usage. Mostly higher income group and educated citizens are more interested in other alternative mediums of exchange and are more prone to take risk in new method of purchase and payment. Moreover certain type of business is not required to exchange cash because of the nature of transaction, this can simply be done by merely transferring the balances to interested accounts.

As per the NITI Aayog on January 2017 the India is basically cash based economy where cash customers are more than 78% of all retail transaction as compared to other countries like China, Brazil and Mexico. Digital India Mission will not able to fulfill its dream without the digitization of all financial transaction and it will help the poor, the middle class, the businesses and the nation. Online transaction is not the choice but it is obligation for India to widen tax compliance and improve tax revenue. India is far behind other country on digital transactions and which otherwise reap the benefit of efficiency of capital and resource allocation through greater transparency, traceability of transactions, enforce ability of law and significantly buoyed tax revenues which will important resources for social welfare.

The demonetization has its effect on the usage of card and cash along with some broader issues like curbing the black money, economic impact in short and long run and future conduct of economic policy. Cash transaction can be also be explained with the help of two dimension its function and its origin. Cash saved for savings they layman is used for an emergency while cash used for transaction with paying tax is black money.

Literature Review

In such countries, where a large section of society is excluded from the formal financial system, cash serves as the principal medium of exchange. Although, the rapid dissemination of technology platforms over the past decades has significantly aided in a movement away from cash, it is primarily limited to a particular section of highly educated, higher income earning sections of society (Rama Bijapurkar et al., 2014).

As per the Zee news channel information as on December 9, 2015, 195.2 million accounts have been opened and 166.7 million RuPay debit cards under the Prime Minister's Jan Dhan Yojana, which was launched on August 28, 2014,"

A lot of the studies around the cost of cash assume that people don't move away from cash to card or other non-cash means because

- (i) They don't know the cost there is to dealing in cash and
- (ii) They don't have access or education about non-cash options

The governments or central banks learned about the total cost to avail the cash from printing or minting, transporting, delivering to the hands of customer. That is why Government also wanted to push harder to eliminate cash from the system with the help of enabling proper regulation/policies to incentivize non cash payments. However there are a number of reasons for the cash to be a predominant way of transaction despite its cost. The cost of non-cash transactions in India for modest income or small ticket users is not insignificant. Yet the cost of non-cash rarely gets computed by researchers, even though consumers compute it quite accurately. (Rama Bijapurkar et al., 2014).

As per Economic Survey 2016-17, after demonetization the aim of Government action was to curb corruptions from the system, black money and the use of high denomination notes for terrorist activities and money that is generated by income without declared to the tax authorities. The people use cards after demonetization is due to compulsion and non-availability of cash in the system. Now they have already gone for the card payment or take some transition time to settle down for this new type of payment system. The appropriate education and positive attitude without fear will motivate to switch to this system of online payment. All government agencies and its related transaction compel consumer to use the card system for payment and reaping the benefit with the help of their accounts. Before this compulsion, policy maker should provide the basic infrastructure for educate the people to the same by some public private partnership.

Electronic payment gateways are more in use by males then females. This is attributed to their better awareness towards cards and electronic fund management as awareness factor is found to be more in case of Male (Vivek Tripath et al., 2013).

Objectives of the Study

- To study the preference level of customer for payment instrument cash over card.
- To study the impact of demonetization on usage of card and cash.

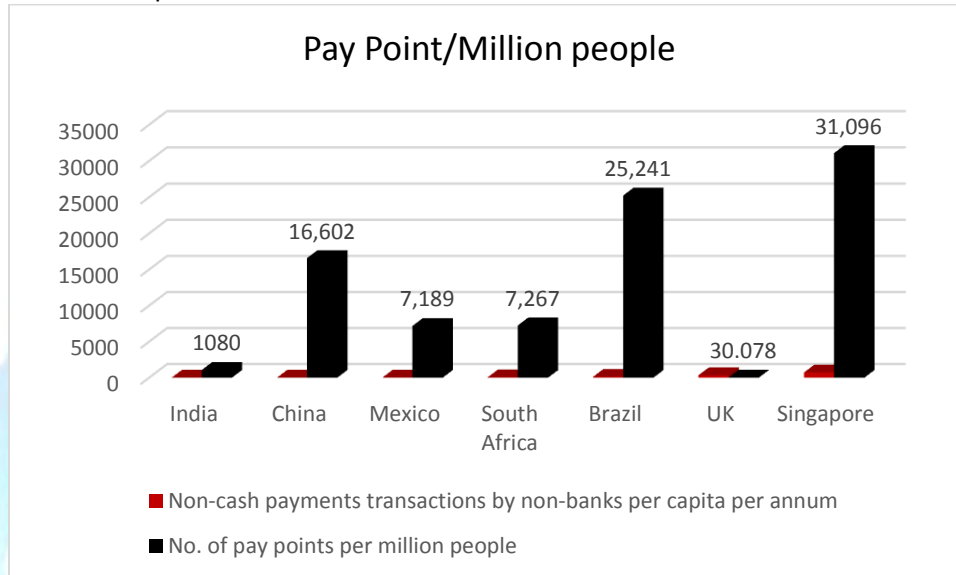
Research Methodology

Basically secondary data is used for analysis. Statistical tools SPSS is used for analyzing the data collected from sources.

Sample Size: The sample size is 8 month data of card usage and cash transaction from ATM is taken from RBI website.

Study and Analysis

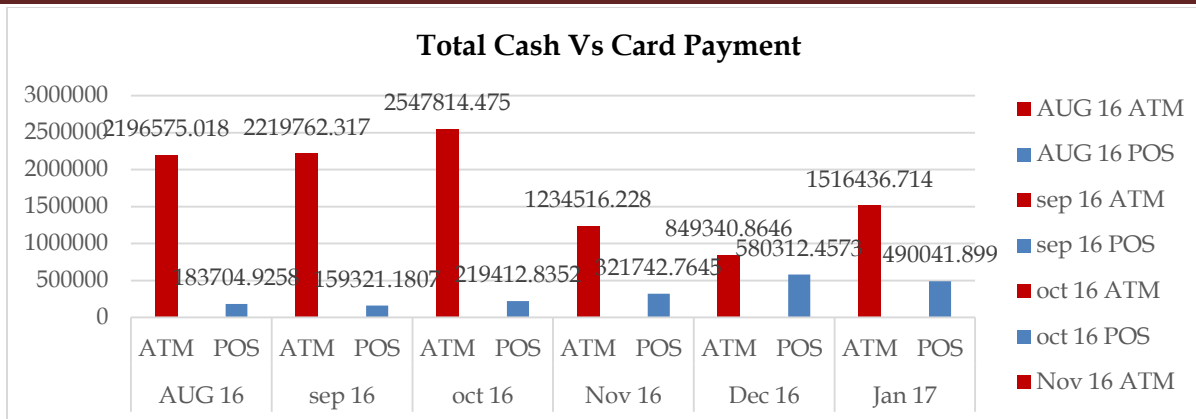
As per the NITI Aayog on January 2017 in case of India the pay point per million is only 1080 which is very much lower as compared to other countries.



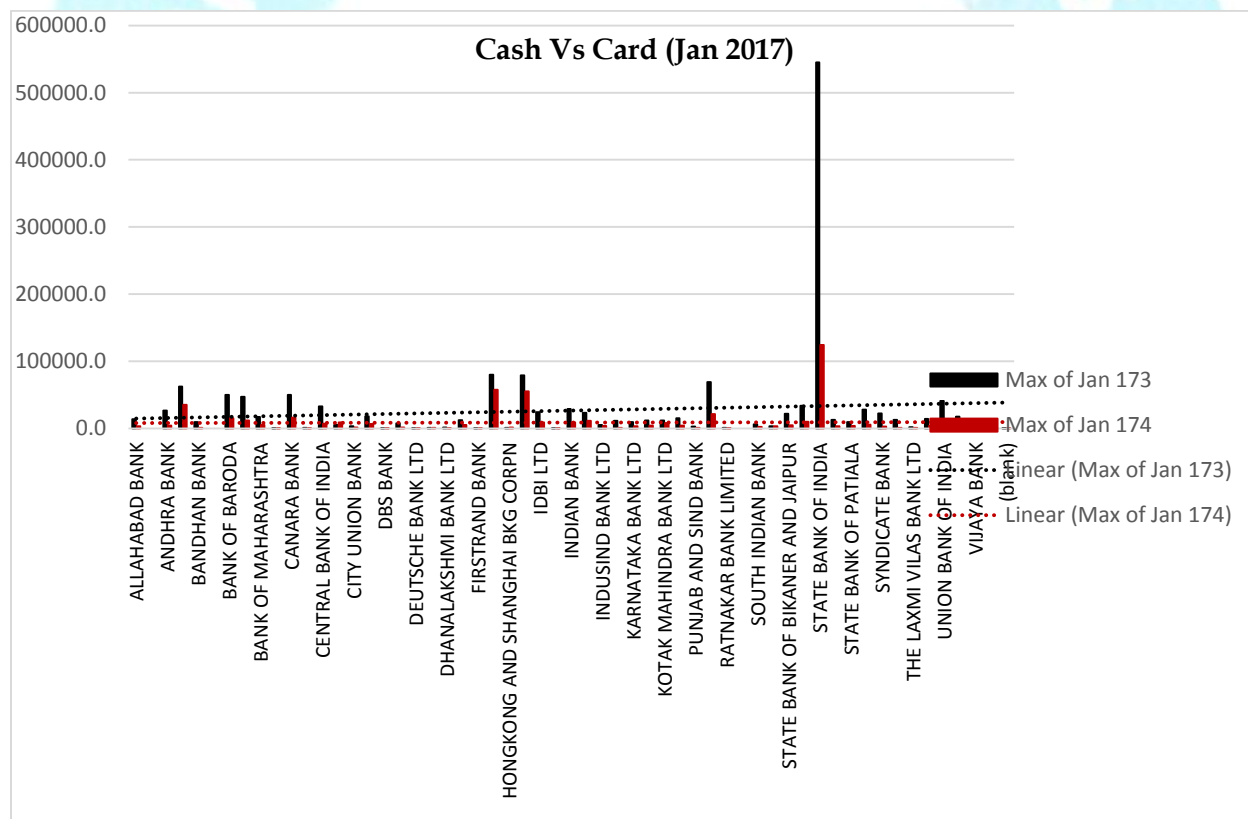
The various modes of payments in the country for digital payment largely based on the following modes

- AEPS: Aadhaar enabled Payment System (MicroATMs/ ATMs/ AadhaarPay)
 - Balance Enquiry – Cash Withdrawal – Cash Deposit – Aadhaar to Aadhaar Funds Transfer
- Bank Cards:
 - PREPAID CARD : Pre-loaded from your bank account Safe to use, limited amount of transaction Can be recharged like mobile recharge
 - DEBIT CARDS: Linked to your bank account Used to pay at shops, ATMs, wallets, microATMs, online shopp
- Mobile phone based: Both Smart Phone and Feature phone
 - Smartphone with internet facility Bank Account details (only for registration)
 - AVAILABLE APPS (28 BANK APPS) SBI app, PNB UPI, UPI Collect (ICICI), Axis Pay, Canara Bank UPI, UCO UPI, Union Bank UPI, OBC UPI and 20 other banks
- Swiping: ePoS, mPoS, MicroATM & ATM
 - Physical Card Swiping – PTSN with landline / GPRS enabled
 - MPOS Phone connected with external POS device through jack / Bluetooth
 - V-POS Virtual E-payment Gateway
- Unstructured Supplementary Service Data (USSD) based Mobile Banking
 - ACCOUNT in an bank along with any mobile phone on GSM network

As we can see from the below graph that before demonetization the cash transaction was the only way people wanted to make payments but after demonetization customer shifted to card payment and reduced the cash transaction which may be by compulsion. Again January 2017 the cash payment mode is leading and the card payment mode has also increased and may stable in the coming time. This show the settlement time for the consumer to shift to card payment completely. Once they reap the benefit of online transaction and its way of doing the business will improve the confidence and motivate them to shift to the card payment for future transaction completely.



After demonetization the cash payment is continued to grow but at the same time card payment is also growing up to some extent. Consumer is not looking for alternative way to make payment based on the nature of product or services. Even though the small amount is still involve cash but the payment of larger amount is shifting towards card payment.



Consumers are inherently slow to change their habits and trust new service providers, especially when it relates to their payments and transactions. Public and private institutions need to come together to educate consumers on how to use mobile as a banking and payments platform, to help build trust in the system.

Conclusion

The discussion leads to say that the adoption of payment system as a card is very slow in India as compared to other country. The effort and policies which Government and Central Bank has framed is not implementing in its true sense to reap the actual benefit of this new system. There are barriers in implementation process and some constraints of the society like education, language and security concerns plays important obstacle to adopt online payment. As studies by Rama Bijapurkar et al., 2014 large marketers, retailers and service providers prefer to focus on the top of the income group (20%) for card payment and other value added services. As a result, a large part of India's consumer market is targeted and serviced by small suppliers along with low cost, generally in unorganized sector. (Rama Bijapurkar et al., 2014). In India there are 13 million retail outlets to cater to 250 million families covering 600,000 villages, 468 cities and 7,500 small cities. Larger cities have big and small suppliers and both the rich and the modest income consumers shop from those retail outlets. PRICE Cash Survey-2014 findings say that credit card marketers in India basically target the rich, educated and salaried individuals who are employed in the any of the formal sector. Fewer than 10% Indian employee are employed in the formal sector along with top income earning of urban households merely 55% of chief earners have a systematic and consistent salary (30% in rural households). The normal Indian consumer is very far away from the segment that credit card companies basically focus on. They are targeting a person of modest income, college degree, is either self-employed or works in the formal sector. It is lifestyle that lead advertising, typically showing the employed executive and his family to encourages the "why wait to have money, spend now" philosophy. The demonetization decision did not taken account the constraints within which it would be implemented. The constraints are real in nature and no policymaker can just ignore and it is they have to bear the losses accordingly. There are some of the key operational limitation that government should could have paid attention to like the capacity to print currency, it logistics limitation, ATM recalibration and replenishment of cash in remote areas, delivery of cash to the consumer via bank and postal office. This is what we have faced after demonetization especially in the small towns and rural areas, because of lack of bank branches and availability of ATMs. After the drive of financial inclusion, millions of households are still not having bank accounts, and many who have bank accounts do not approach to bank systems. So the system must be developing in such a way that last men can use it, if he is able to use all others will definitely adopt without any delay.

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