

# **A STUDY ON DEMONETIZATION WITH SPECIAL REFERENCE TO SWOT AND PESTEL ANALYSIS ON INDIAN BANKING SECTOR**

**Mr. Madhusudhanan R<sup>1</sup>, Dr. Balaji D<sup>2</sup>**

*<sup>1</sup>Assistant Professor, <sup>2</sup>Director, Hillside Institute of Management and Academy,  
Bangalore University, Bangalore, (India)*

## **ABSTRACT**

*The growth of banking industry in India may be studied in terms of two broad phases, Pre-independence (1786-1947) and Post-independence (1947 till date). Banking today is a flourishing industry, focused on technological innovation. Banks play an important and active role in the economic development of a country. Banking systems of any country needs to be effective, efficient and disciplined because it brings about a rapid growth in the various sectors of the economy. Liberalization brought several changes to Indian service industry. Technology has been one of the most important factors for the development of the nation. Information and communications are significant part in the field of technology which is used for accessing, processing, storage and dissemination of information electronically.*

**Keyword: Banking, Demonetization, PESTEL, SWOT, Economy.**

## **I. INTRODUCTION**

The origin of the Indian banking industry may be traced to the establishment of bank of Bengal in Calcutta (now Kolkata) in 1786. The growth of banking industry in India may be studied in terms of two broad phases, namely Pre-independence (1786-1947) and Post-independence (1947 till date). The Post-independence phase may be further divided into three sub phases such as pre-nationalization period (1947-1969). Post nationalization period (1969 to 1991) and Post-liberalization period (1991 till date). Banking today is a flourishing industry, focused on technological innovation. Banks play an important and active role in the economic development of a country. Banking systems of any country needs to be effective, efficient and disciplined because it brings about a rapid growth in the various sectors of the economy. Liberalization brought several changes to Indian service industry. Technology is revolutionizing all areas of human endeavor and activity. It has now brought in E-banking, which is gradually replacing the traditional branch banking. Internet banking has emerged as the biggest focus and targetable area. The customers are able to choose their banker from a number of banks offering wide range of services and delivering quality service. The commercial banks in India are now becoming more market oriented and customer friendly. Internet banking is changing the banking industry and is having a significant impact on the banking relationship. Banking industry is fast growing with the use of technology in the form of ATMs, on-line banking, Telephone banking, Mobile banking etc., This growth has been strongly supported by the

development in the field of technology, without which this could not have been possible. Besides it will change our lifestyle in coming years. Banks now a day's provide a wide range of services to satisfy the financial and non-financial needs of all types of customers from the smallest account holder to the largest company and in some cases of non customers. The range of services offered differs from bank to bank depending mainly on the type and size of the bank. This paper describes the modern banking services are pivotal for banking sectors. This paper describes the need, impact, importance and benefits of modern banking services for the sustainable development of banking sector.

## II. REVIEW OF LITERATURE

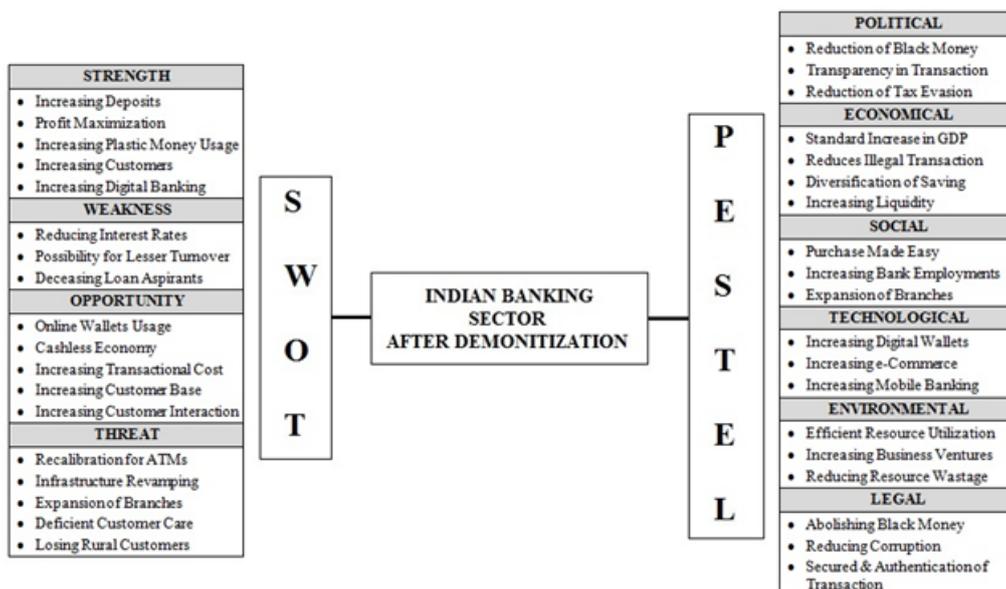
Charan Singh (2016), RBI chair professor, IIM Bangalore discussed about the mixed results of economic implications of demonetization. According to him, it would inspire confidence of international community that India is serious about its commitment to fight corruption and enhance India's ranking in ease of doing business as well as in various global indices of corruption. However the ultimate pain in terms of non-availability of required currency notes if not corrected soon, may reflect in reduction of output in agriculture, which may spill over to industry and services. Tim Worstall (2016) favored demonetization as it would lead to lower budget deficit, interest rates and inflation. The effects of change on GDP will emerge from system itself because we cannot calculate an economy beforehand. Mamun Rashid (2016) viewed it as a painful exercise for not only the corrupt, but for the poorest and most marginalized people too. Demonetization can be a futile exercise in the absence of steps to curb the generation of black money. Fake money once again may re-circulate. Terror cannot be stopped by banning notes. The economy will be catatonic in short term, followed by a period of easing out. Only time will tell if it was all worth it. Dr. Manmohan Singh (2016), former Prime Minister of India contended that this measure has thrown the lives of millions of poor people in disarray as cash is the bedrock of lives of these people. This brazen policy measure has neither tackled the stock of black money nor has it stemmed the flow of it. The policy can act as a negative shock to the economy also. Annamalai, S. and Muthu R. Iiakkuvan (2008) in their article "Retail transaction: Future bright for plastic money" projected the growth of debit and credit cards in the retail transactions. They also mentioned the growth factors, which leads to its popularity, important constraints faced by banks and summarized with bright future and scope of plastic money. Alvares, Clifford (2009) in their reports "The problem regarding fake currency in India." It is said that the country's battle against fake currency is not getting easier and many fakes go undetected. It is also stated that counterfeiters hitherto had restricted printing facilities which made it easier to discover fakes. Ashish Das, and Rakhi Agarwal, (2010) in their article "Cashless Payment System in India- A Roadmap" ash as a mode of payment is an expensive proposition for the Government. The country needs to move away from cash-based towards a cashless (electronic) payment system. This will help reduce currency management cost, track transactions, check tax avoidance / fraud etc., enhance financial inclusion and integrate the parallel economy with main stream. Jain, P.M (2006) in the article "E-payments and e-banking" opined that e- payments will be able to check black, "An Analysis of Growth Pattern of Cashless Transaction System". Taking fullest advantage of technology, quick payments and remittances will ensure optimal use of available funds for banks, financial

institutions, business houses and common citizen of India. He also pointed out the need for e-payments and modes of e-payments and communication networks.

### III. DEMONITIZATION IN INDIA

India has turned now a paradigm for all the developed and developing nations, because of the robust decision by our Prime Minister of India. The pleasant evening of 8<sup>th</sup> November 2016, a great breakthrough in our Indian economy, happened. Economic activities became still. Yes the catchy jargon which collapses the most. It is a milestone to India, and it became an example for other countries. Now you can what blinks in your mind is correct, it's nothing but "Demonetization". The first demonetization was happened in January 1946, again it was implemented in the year 1978. In the year 1938 the Reserve bank of India was introduced the highest denomination of Rs.10, 000 notes, and again in 1954. Because of the announcements of demonetization in the years 1954 and 1978 the higher value notes of Rs.10, 000 and Rs.1, 000 notes were demonetized. The new Rs.500 note was introduced in the year 1987. Last November 9 2016, the Modi government demonetized the higher value currencies of Rs.1, 000 and Rs.500 notes. And this time the government has introduced the new high denomination currency of Rs.2,000 notes. E-banking is one of the emerging trends in the banking and is playing a unique role in strengthening the banking sector and improving service quality. It has enabled the banks to handle the payments electronically and inter-bank settlement faster and in large volumes. Customers can view the accounts, get account statements, transfer funds, purchase drafts by just making a few key punches. Availability of ATMs and plastic cards, EFT, electronic clearing services, internet banking, mobile banking and phone banking to a large extent avoid customers going to branch premises and has provided a wider range of services to the customers. Use of advanced technology has led to the shift from traditional banking methods to modern banking methods. Currently, the most common and useful technology based banking methods are online banking, Mobile banking, Video banking, Telephone banking, ATMs.

#### SWOT AND PESTEL ANALYSIS ON INDIAN BANKING SECTOR



## IV. INTERNAL AND EXTERNAL ENVIRONMENTAL ANALYSIS

### a) *Swot Analysis*

#### 1. *Strength*

- **Increasing In Deposits.**

More than 90% of demonetized money is deposited in bank. Due to floods of cash in to the banks the interest rates are reduced.

- **Profit Maximization**

Inter bank borrowings is declined due to increase in liquidity deposits. There is a boost in CASA ratio, it reduces the cost of funds and helps to NI margin.

- **Increasing In Usages Of Plastic Money.**

The usage of debit card surges up to 70% and credit card usage shoots by 40%. Banks have started mobile ATMs to facilitate the customers.

- **Increasing Customers**

New customers walk in to the banks to open the new account. It's been 219 million new accounts are opened after demonetization.

- **Increasing Digital Banking**

More than 14 million people downloaded the mobile applications. Within the short span of time, it was surged 80% fold of usages of digital payments among the smart phone users.

#### 2. *Weakness*

- **Reducing The Intrest Rate**

It may be short or medium term may be the liquidity expansion in banking system, helps to lowering the interest rates. It's not for long run to uplift the growth of banks.

- **Possibility Of Lesser Profit**

There will be chances of slight decline in the profits of the banks in short run due to reduction in bank rates and short term restrictions to the transaction charges.

- **Decreasing In Loan Aspirants**

The bank cannot keep flow of deposits idle it should be tap some resources for the deposits. Therefore it should invest in an effective manner or it again should search for the credible persons to lend the money.

#### 3. *Oppournuities*

- **Online Wallet Useages**

People are reluctant to try new things unless it becomes necessary. The demonetization will nudge a larger number of individuals to lessen their dependence on cash transactions and resort to digital payments. Digital wallet Freecharge has seen a 10-fold surge in the number of retail merchant sign-ups in the past few days. Paytm is the largest Indian mobile payment wallet with more than 100 million users and making 2 million transactions every day.

- **Cashless Economy**

**Convenience:** The ease of conducting financial transactions is probably the biggest motivator to go digital. You will no longer need to carry wads of cash, plastic cards, or even queue up for ATM withdrawals. It's also a safer and easier spending option when you are travelling.

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**Discounts:** The recent waiver of service tax on card transactions up to Rs 2,000 is one of the incentives provided by the government to promote digital transactions. This has been followed by a series of cuts and freebies.

**Lower risk:** If stolen, it is easy to block a credit card or mobile wallet remotely, but it's impossible to get your cash back. "In that sense, the digital option offers limited security,

- **Increase Transactional Cost**

India's leading private banks said that they will charge a minimum of Rs 150 for cash deposits and withdrawals at bank branches after four free transactions in a month, revising charges that were kept in abeyance briefly after the government demonetization on November 8. HDFC, ICICI and Axis will calculate the fee – aimed at reducing cash transactions at banks – at the rate of Rs 5 for every Rs 1,000 transacted or Rs 150, whichever is higher.

- **Increase In Customer Base**

After the demonetization move, it seems mandatory to maintain the account with banks. Therefore it automatically leads to increase the customers in both private and public banks. Definitely there will be the tug of war between the private banks to increase their customers.

- **Increase Customer Interaction**

Digital transactions or Normal transactions, it enables for more interaction with customers and bankers. It is a great responsibility to the customers if the country is moving towards the cashless economy. The online transactions and digital payments are convenience to the banker and customer, it is again more responsibility for either sides.

#### 4. Threats

- **Re-Calibration Of Atm's**

It is a time consuming process to recalibrate all the ATM'S to new currencies. The recalibrations charges of ATMs will be borne by the banks which would reflect short fall in the banks profit. This again will create the short term effects.

- **Infrastructure Revamping**

There is need for a significant upgrade of the banking system as well as in the telecom infrastructure that would provide the backbone for digital transactions. For people to be able to transact at any time and place as well as for them to consider it a reliable medium of exchange, it is important that not only the banking system is upgraded to ensure that transactions can be completed without a hitch, but the supporting infrastructure too is up to the mark. For instance, in many parts of the economy, there is limited and intermittent supply of electricity as well as mobile connectivity. In these areas, it would be difficult to expect people to shift to electronic medium of exchange.

- **Expansion Of Branches**

To satisfy the customer needs the banks should expand its branches over the horizons. Especially the scope of banks are increased the expansion is inevitable. The customers are more centric towards the banks.

- **Deficient customer care**

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There is a big threat behind this, are the banks should pay more attention towards the customers. The digital payments and online banking's may create problem at any time to the customers. The banks should have the proper team to responds to the customers at any time. This makes our customer more loyal to our banks.

- **Loosing rural customers**

Sometimes the customer from the rural background will have more deposits in the bank. But the strange process of the cashless transaction make them frustrated and they can go for negative impression towards the banks.

b) **Pestel analysis**

- **Political**

- **Reduction of black money**

In India all sections of the society are accustomed to use cash transactions, and this habit is unscrupulously misused by some bad elements of the society. Such habit resulted in even people with accounted money are started using cash transaction for high value transactions. It is resulted into parallel economy with unaccounted money, even much stronger than regular economy. The parallel economy black money, corruption, counterfeit currency and terror financing. These issues hampered growth and development of the economy. In this background demonetization of Rs 500 and Rs 1,000 currency notes as a master stroke, as the move will address issues like black money and corruption and also help the economy become more digital. The move will either unearth the black money slashed in the form of cash or forces to destroy those unaccounted currencies. Demonetization will curb the menace of black money and will help check stashing of funds to a large extent.

- **Transparency In Transaction**

Similarly it has major impact on corruption that exists in India and also on financing of terror activities in India. Hence it was considered as courageous step in the fight against unaccounted money. As per RBI Handbook on Statistics of Indian Economy 2015-16, a total of Rs.16.42lakh crore worth of currency was in circulation as at end-March 2016. Of this, Rs.14.18 lakh crore was in form of Rs.500 and Rs.1000 denomination notes, representing around 86 percent of the value of total currency and coins in circulation. In terms of number of notes in circulation, Rs.500 and Rs.1000 denomination notes represent about 2200 crore notes, which were about 26 per cent of total notes in circulation. Therefore, it can be seen that the step would cause immobility of a major chunk of currency in the system which is expected to result in short term inconvenience for the public.

- **Reduction In Tax Evasion**

Having closed the voluntary disclosure window for undisclosed money, it has been reported that government will keep a close watch on deposits over Rs 2 lakh in cash. This would mean increased tax net, higher tax collection and a better tax to GDP ratio. Philips Capital in a report says that the extent of parallel economy, which was 23.2%of GDP, is now around 25-30% of GDP. As the money gets accounted and more taxes are collected, government might be tempted to reduce tax rates going forward. Migrating to Goods and Services Tax is a good opportunity to bring about simplicity in the taxation system which can encourage businesses to shun black money transactions. These measures, together with use of advance Information Technology and stricter vigilance will take the country to newer heights, reduce income disparities and help realize the dream of inclusive growth more sooner than later.

2. **Economical**

- **Standard increase in gdp**

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The services sector is expected to be affected the most under both the approaches, mainly on account of losses in trade, hotel, transport etc. due to the volume of cash transactions involved in these economic activities. Importantly, these losses, due to their inherent nature, can't be recovered in the next quarter. SMEs in industry will have a major problem in adjusting production schedules as both payments and receipts flow in cash given their structures. For rest of manufacturing, demand side issues would exist till such times conditions stabilize and could get reversed in Q4. Hence, Industry is also expected to be impacted which will be more significant in the first 2-3 weeks post the announcement. The gains would be positive for the banking sector due to the increase in deposits which would be countered by slowing down of other sectors in the group like real estate. Agriculture is expected to least impacted with major shock being absorbed in the first 2-3 weeks itself as there have been issues in sales at man dis due to the cash crunch presently. The GVA numbers for FY17 in the second column have been drawn up on the assumption of growth of 7.6% for the year which was our assumption prior to the demonetization with GDP growth projected at 7.8%. The GDP formation could be impacted by this measure, with reduction in the consumption demand. However with the recent rise in festival demand is expected to offset this fall in overall impact. Moreover, this expected impact on GDP may not be significant as some of this demand will only be deferred and re-enter the stream once the cash situation becomes normal

- ***Reduce illegal transactions***

The removal of these 500 and 1000 notes and replacement of the same with new 500 and 2000 Rupee Notes is expected to - remove black money from the economy as they will be blocked since the owners will not be in a position to deposit the same in the banks, - Temporarily stall the circulation of large volume of counterfeit currency and - curb the funding for anti-social elements like smuggling, terrorism, espionage, etc.

- ***Diversification of savings***

The demonetization move also boosted Indian investment sentiments vis-a-vis gold. "This move has reinforced Indians' belief in gold as a safe haven asset. Several households, who were stuck with old currency notes, converted them into gold, after the demonetization move was made public.

- ***Increase in liquidity***

Movement of goods and money will be hit in the short. A Bank of America Merrill Lynch note says that wholesale channel forms over 40% of the sales for the Indian consumer firms. This channel works mainly on cash transactions and will likely witness liquidity constraints in the near term. This could disrupt the supply chain and impact growth in the December quarter. The report further adds that consumer firms typically provide tight credit terms (<7 days) to the distributors, who in turn provide credit to the wholesalers/ outlets on their own accounts. Due to overall tightening of the cash-liquidity in the supply chain, consumer firms may be forced to offer easier credit terms to the distributors in the near term. As a result we expect an increase in their receivables in the December quarter.

### 3. ***Social***

- ***Purchase made easy***

Embracing cashless options and being an informed consumer who is aware of the available systems and their designs increases the chances of a convenient and consumer-friendly experience. Traditionally, online transactions were done either by providing debit and credit card details or through net banking interfaces. While there were issues of security, which kept improving, the payment experience was not very user-friendly. These

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options were also largely restricted to computers with access to internet. But after the smartphone revolution, things have changed entirely. India has seen an explosion in digital payment options, from e-Wallets to the Unified Payment Interface to a combination of the two. There are many cashless payment options available in India.

- ***Increases bank employee income***

Bank employees, mostly from the public sector, will get a 15 per cent wage hike and two additional holidays a month as part of an industry-wide wage settlement. This is part of the deal cobbled up by employees' unions and bank managements, under the aegis of the Indian Banks' Association (IBA), at a meeting on Monday. Following the agreement, the employees' unions have called off the four-day strike, which was supposed to start on February 25. The proposed hike in salaries will amount to a collective outgo of ₹ 4,725 crore per year for the 45 banks that are part of the 10th industry-wide bipartite five-year wage (2012-2017) settlement exercise. Almost 8.50 lakh employees in the banking sector – all public sector banks, some old generation private sector banks and a few foreign banks – are expected to benefit from the wage settlement. The revised salary will be implemented with retrospective effect from November 1, 2012. Under the terms agreed on Monday, banks will remain closed on the second and fourth Saturday. Other Saturdays will be full working days. It is expected that even private banks may follow suit. The proliferation of ATMs, internet banking and mobile banking in the last few years seems to have convinced bank managements, under the aegis of the Indian Banks' Association (IBA), that giving second and fourth Saturdays off every month is feasible. "Given the technology that is at play in banking, two Saturdays off in a month is unlikely to cause inconvenience to bank customers," said a top public sector bank official. According to CH Venkatachalam, General Secretary, All-India Bank Employees Association, the 15 per cent hike, which is excluding superannuation benefits, hospitalization expenses, leave travel concession, is on the pay slip component.

- ***Expansion of bank working hours***

Fearing a jump in footfalls to deposit or withdraw cash following the demonetization of Rs 500 and 1,000 banknotes, banks will remain open this Saturday and Sunday and its staff will do overtime till 2100 hrs for the next three days to clear the rush. Banks also announced a slew of measures, including extension of banking hours, doing away with ATM charges and expanding credit limits to handle the expected huge rush to tender now defunct Rs 500 and 1000 notes. Bankers have also been advised not to take additional leaves for the next one month, during which the government has asked holders of over 22 billion currency notes that are no longer legal tender, to deposit them in bank accounts. For public convenience, banks will remain open on coming Saturday and Sunday, Economic Affairs Secretary Shaktikanta Das quoted.

#### ***4. Technological***

- ***Increase in digital wallets***

E Wallets have become very famous nowadays. After demonetization, use of e wallets has been implemented at a very large-scale. These e wallets allow users to make payments using your mobile number or by scanning a QR code which takes place in a jiffy. All you need to do is simply download a wallet like paytm.

- ***Increase In E-Commerce***

Net Banking is another handy way to get cashless transactions done. All you need is a bank account with e banking facility enabled on it. You can transfer funds to others account from the comfort of your home. There is

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no need of going to your bank to get transfers done. You can make all payments and transfers yourself. This is a very convenient way to go cashless in India as well for the business aspect.

- ***Increase in mobile banking***

Mobile payments in India gained popularity mainly in the metropolitan cities initially. However, it is slowly becoming more adapted to in the semi-urban regions as well. As the banking and mobile payment companies are focusing more on KYC to help increase the transaction limit from the present INR10,000 to INR100,000 at least. According to estimates, the current mobile banking usage in India is around 14% and is expected to rise to more than 30% with the recent demonetization move by the government, by the end of this decade, in 2020. The report pointed out to several factors that are set to drive the mobile banking usage in India to an all-time high. Some of these important factors that are estimated to contribute towards the growth in popularity of mobile banking in India are the increasing penetration of mobile smartphones (from the current estimated 290 million) and the growing popularity of online shopping and other online cash-less payment methods, such as digital wallets, mobile payment agents, etc.

### 5. ***Environmental***

- ***Effective utilization of resources***

When the payment is done online, in an extensive way which have also given a positive opportunity to travel for the same. This have given space for people and business ventures in paying the needful money by fund transfer which has its authentication and security and efficient in resource usage. A person would have travel by his vehicle to lend or receive money from one party to another, now it became very easy to make the same without making the physical movement. Thus, considering a state or our country by and large we have saved considerable amount of fuel on this regard.

- ***Increase In E-Commerce***

The one thing that has been growing at a good pace after demonetization, it is online payments. Though the situation cannot be fully rectified in one go, e-commerce retailers could take certain steps to make it easy for the customers to make their payments and thus, in turn, help their own businesses as well. Besides payment through internet banking and debit or credit cards, mobile wallet payments are great too. E-commerce sites can start adding more options of payments and payment through popular mobile wallets too. Currently, the number of POS devices is pretty low in relation to the number of online orders made. By increasing the number of POS devices, e-commerce players can make it convenient for the customers by allowing them the security and convenience of COD orders. This, in turn, would reduce the number or undelivered orders for the online retailers thus making it a win-win situation. Several retailers also ran attractive promotions and discounts so as to encourage people to place orders. Online retailers also have introduced impressive discounts for all the cashless payments. This encourages more customers to choose a payment method other than COD and claim their discounts and in turn helping the e-commerce businesses retain a reasonable cash flow.

- ***Rest To Terror***

Kashmir is the place where demonetization has shown its effect earlier. The riots in Kashmir which was running from a long time in Kashmir came to a stop due to lack of money supply to the people who were doing it on orders of others. Hawala method was used to transfer money for riots in Kashmir and demonetization has blocked it completely. Naxalites in India were living all because of black money. Now, they don't have funds to do

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recruitment, have shelter, and buy foods and other activities. On an estimate their annual turnover was around Rs.500 Crores which they do through terror funding, NGOs, forgery, extortions and local taxes. So, No valid money means no bad activities.

## 6. Legal

### • *Abolishing Of Black Money*

A recent study had pegged India's black market economy at over Rs 30 lakh crore or about 20 % of total GDP. This is even bigger than the GDP of countries like Thailand and Argentina. So now after this Decision black money holders are left with just two options – either route this money through banks, declaring it to be their income or burn the stashed file

### • *Reducing Corruption*

Demonetization may not be able to rule out collusive corruption as it is a win-win situation for both the bribe giver and the bribe taker. Ingeniously, collusive corruption is referred to as speed money, convenience fee, facilitation expenses or departmental overheads. The bribe giver willingly offers gratuity to the official for out-of-turn favor. Many businesses thrive on such dealings. No one complains.

### • *Secured And Authentication Of Transaction*

Due to Demonetization, the public has started to use the e-money in all purchase and transfer and thus the authentication of money transfer becomes obvious and legitimate. When public money transfers are maintained transparent the issue of Black money is with less prospect and people fall into liability. Though availability of internet access and the intensity requires improvement for future developments, the prospect of this is well established and sustained.

## V. CONCLUSION

This paper have explored the content of demonetization with special regard to the Banks in India and sorted out the prospective features both in the micro level environment and also in the macro level environment. DEMONETIZATION is a strategic and historical event that has evidenced radical change in the financial system breaking out of traditional outset in financial correspondence. This radical difference of money transfer paves a number of opportunities both in internal and external environment of business ventures. This paper has analyzed precisely and sorted out to explain the prospect of development and sustainment for business procedure of future times. This paper also gives space for further research pursuits on how these prospects are tapped effectively in future to other researchers with this regard as a initiation.

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