

Normalising the Digital Currency as an Innovation in Digital Banking Practice

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ABSTRACT : Modern electronic payment systems by banks and other sectors have introduced the significant innovations in recent days. This paper covers, what would be the impact if the 'Digital Currency' is normalised as existing physical currency in banking and other transactions. That is involving digital currency in day-to-day transactions in e-payment as digital banking practice. Effect of Digital currency in the general economy, is it a boon or bane for the society? how the general public will get affected by this technological change in money. In the study we managed to collect the primary data from the general public from various localities of Karnataka and organized their opinion about the normalizing the digital currency.

Key Words: Digital Currency, E- payment, Bitcoin, Normalise.

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INTRODUCTION

The banking sectors have been the foundation of each country's economy whether developed or developing. It plans and executes the various monetary changes in the country. Any adjustments or changes in this area through the adoption of technological innovation will have a broad influence on an economy's development.

The Reserve Bank's initiation to build a less-cash society went on with the large-scale adoption of digital modes of payments in the country. In these periods of rising method for electronic payment systems, Digital banking is one of the main advancements in the history of banking. However, in spite of the many advantages that web based banking gives to clients, there are various central issues and challenges for marketers in the online banking sector, as a result the Banks have focused its interest on well-being and security of e-transactions. In like manner, the Bank made progress towards developing a strong and tough innovative foundation which guaranteed smooth working of the basic and fundamentally significant payment and settlement systems in the country.

These days, banks are looking for unusual ways of providing differentiate services. In the name of this innovation in baking practice what would be the impact if digital currency is introduced as a normal existing physical currency by banks.

As digitalization has progressed, there has been an increase in private digital currencies. They are digital in the sense that they have no physical counterpart. It is important to distinguish between private digital currencies and digitalization of state-issued currencies. Till now there is no authorised body which have complete control over the existing digital currency in India, even the concept of digital currency is one of the trending matters in the economy. Thus, by analysing this trend and making it as positive impact on the economy it could be possible by issuing it in a centralised manner and having regulatory control by central bank of India.

BACKGROUND STUDY

About digital Currency

The term 'digital currency' refers to money exclusively available in digital or electronic form. It is also known as cyber cash, digital money, electronic money, or electronic currency. Electronic wallets or computers connected to the internet or specified networks conduct digital currency transactions. Typically, digital currencies do not require intermediaries and it is frequently the most cost-effective way to trade currencies. Digital currencies have the ability to transfer value seamlessly and reduce transaction costs.

How Digital Currency works?

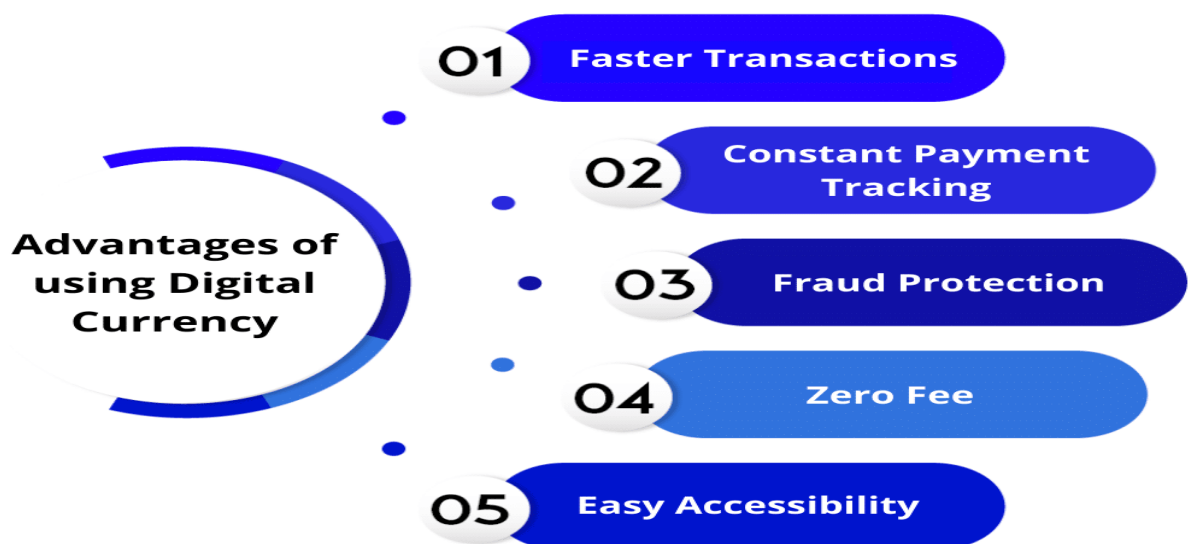
The most significant element of how digital currencies work is their blockchain network. All digital currencies are built on Blockchain technology. Blockchain protocol permits digital currencies to be created and used as a viable form of money. Without the blockchain protocol making digital currencies would be impossible.

Digital currency's blockchain network pertains to a public ledger of all transactions of those currencies that have never occurred. New transactions are grouped into blocks. Every block is validated by multiple users throughout the network before it's added at the end of the chain. The miners have the responsibility of confirming the transactions inside a new block.

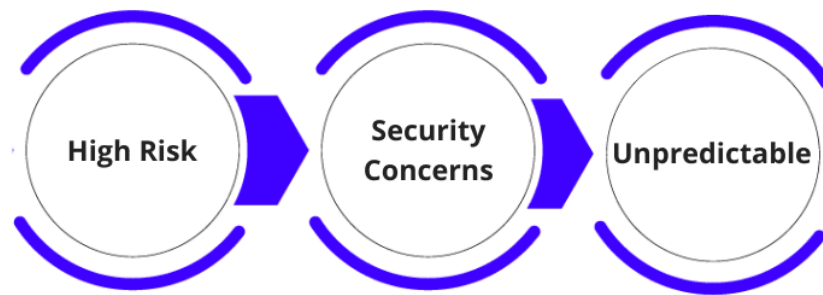
To confirm the block miners, compete with each other to make "hash". Hash is a unique sequence of cryptographic information. Once the miners complete the hash, the new block is confirmed, and the hash is stored along with it. To regulate the currency and to control inflation, the blockchain software protocol makes it difficult for miners to generate hashes and confirm new blocks as the networks grow.

When Digital currencies are mined on their blockchains or are transferred among the users, then they are required to be stored until their new owner is ready to use them. These are stored in the digital currency's wallets. These wallets can store digital currencies securely for an indefinite period.

Advantages of using Digital Currency



Picture 1 : Advantages of Using Digital Currency.



Picture 2 : Disadvantages of Digital Currency.

Digital Currency in India

There has been a significant rise in digital currencies which can potentially impact the financial system and the practices of the banking industry. Currently a many of the private and decentralised bodies are trading this digital currency in very successful manner in India as well as at world -wide. Although in countries like India, where physical currency is widely used, but still the public routinely conduct transactions without physical currency i.e., through e-payment option and other digital banking practice.

As we know that, the regular baking culture in trading normal physical currency, the same could followed in handling the digital currency as well. However, one of the main drawbacks of existing digital currency is security issue as it is working in decentralised format. This can be vanished through some extent when it is centralised by central bank or government bodies.

Hence, Centralised digital currencies are on its way i.e., in the name of **Central Bank Digital Currency (CBDC)**. A CBDC is a digital form of a legal tender issued by the central bank. It is equivalent to fiat cash and may be exchanged one-to-one but in a different form. A sovereign currency in electronic form will appear on the central bank's balance sheet as a liability (currency in circulation). It should be possible to exchange CBDCs for cash.

Central banks worldwide are promoting digital currencies for various reasons including to popularise usage of electronic money and thwart the emergence of private digital assets such as cryptocurrencies. According to a poll by the Bank for International Settlements (BIS) in 2021, 86% of central banks were actively researching possibilities for CBDCs, 60% were experimenting with the technology and 14% were conducting trial projects. More than 91 countries, representing over 90% of the world's GDP, have their own centralised digital currency in works.

India is in the development stage of its digital currency. India is in the stage of development of its digital currency by central bank, which is expected to emerge in early 2023 and will be similar to any of the already available private company-operated electronic wallets, with the exception that it will be sovereign facility.

REVIEW OF LITERATURE

So far there are many articles on digital currencies on its functions, advantages, risk and securities issues in its usage at worldwide level. In recent days the percentage of digital banking users rather than normal traditional banking is more. It's clear with various studies that after introducing the digital banking concept there is an elephantine transformation in the culture of banking sector's function. One of the recent studies reveals that, the volume of digital transaction in India has increased by 33% (YoY) during the financial year 2021-22. Over 35 billion digital transactions worth Rs. 7,422 crore digital payments were recorded during this period as per the survey of ministry of Electronics and IT.

In current financial market digital currency is one of the most interesting and trending topics consecutively involved in all the sectors at world-wide. But with an undesirable opinion of risk and insecurity in its function. A centralised control on it can bring a giant impact on the economy. As a same an initiation by government of India, announced its latest progress happens to be in coming days. Ms. Nirmala Sitharaman, Minister of Finance and Corporate Affairs, mentioned in 2022-23 budget speech that a central bank-backed '**digital rupee**' would be launched soon. The RBI has made public its proposal to adopt digital currency in stages. Mr. T. Rabi Sankar, Deputy Governor of RBI, stated that, in December the wholesale component of the CBDC will make significant progress, while the retail component would take longer. The digital rupee will be based on blockchain technology, which will reduce the cost of currency maintenance and allow the government to manufacture fewer notes. The currency will be digital; its lifespan is extended because digital forms cannot be destroyed or lost.

Hence this article is concentrating on the concept of Digital Currency and studies its implications in country like India, what would be the impact and its acceptance by society.

PROBLEM STATEMENT

Digital currency in the banking industry can increase the speed of domestic and cross border transactions. It can reduce transaction costs and has the potential to broaden the access of the financial system to rural households. Let's see the consequences of introducing the digital currency by banking sector and impact on economy and acceptance by the general public.

- Will digital currency normalisation would have an adverse effect in the economy?
- Is the digital currency is having the favourable impact as e-payment option by bank?
- Will really the digital currency is help full for the general public in country?
- Are there any risks involved in using the digital currency?
- Will the government will be able to full fill the needs of the public for issuing CBDC?

OBJECTIVES OF THE STUDY

1. To study the awareness about the digital currency and its function among public.
2. To know the perspective about normalising the digital currency by centralised authority as normal physical currency.
3. To analyse the impact on economic conditions.
4. To know the role of banking in normalising the digital currency.
5. To understand the government stand in executing the CBDC.

RESEARCH METHODOLOGY

The descriptive research design is opted to learn in detail about the awareness about the concept of digital currency and e payment practices in banking. This study is based on both primary and secondary data, where as the primary data in the form of applied research and secondary data in exploratory form, which made this article more realist and practical towards the present perspective of respondents towards digital currency.

Sampling Techniques: the technique of sampling used is simple random sampling, the samples are collected is randomly out of suitable group of population.

Population and area of population: The group of population is concentrated on different age groups of young generation who belongs to the different localities in India with special reference to Karnataka.

Sources of Data:

The study comprises both primary data and secondary data

Primary data: the data collected through an electronic mode i.e. through google forms with set of questionnaires, and collecting the data directly from the suitable populations

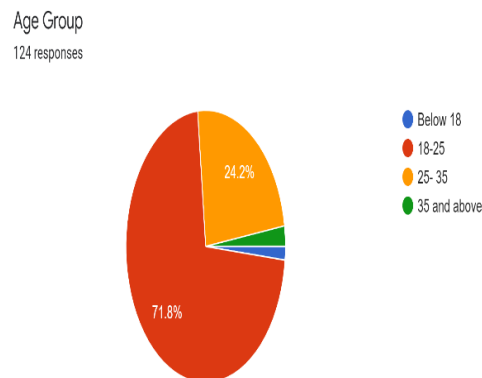
Secondary Data: various articles on related topics, books and various websites etc.

Data Analysis and Interpretation:

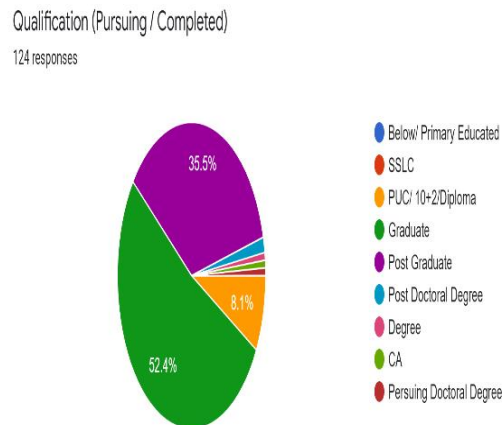
Due to the passage of time, it was unable to carry out field research, but the relevant data was gathered through digital mode, where the different set of questions have been asked to the respondents over the topic, during the study we managed to reach 124 accurate respondents who have shared their opinion on the topic. The analysis of which has been presented with the help of following.

Samples and other basic information of respondents:

The main target population is the group belonging to those who have at least basic idea of digital currency which is further recognised under different age groups, localities and with their background of qualification and employment status in different fields. Out of 124, respondents 71.8% of the belong to the age group of 18-25, 24.2% belongs to 26-35 and rest of them are aged above 35 years. Out of these, 52.4% are graduated, 35.5% are post graduated and 8.1% are 10+2 or diploma holders and remains 3.2% are PhD holders, CA and with other qualification.



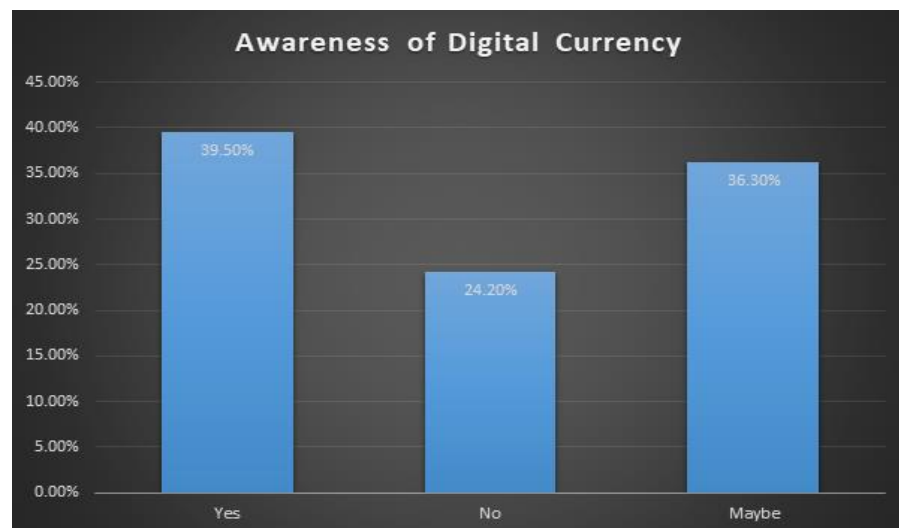
Picture 3 : Age Group.



Picture 4 : Qualification.

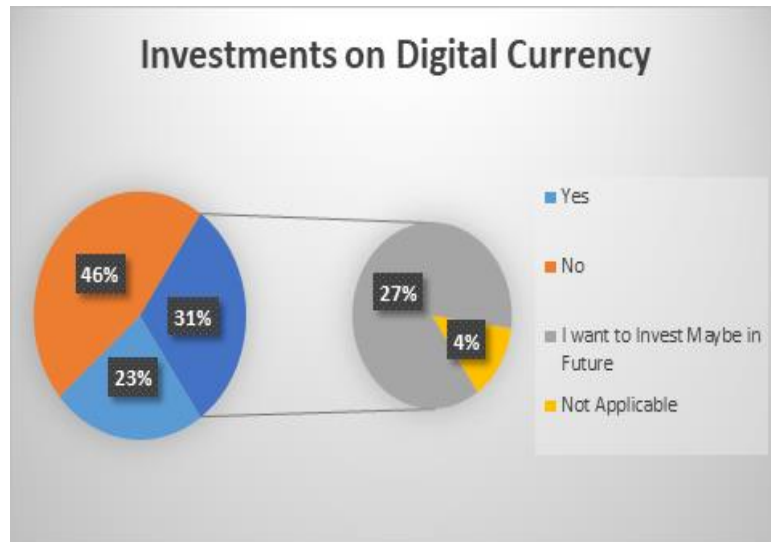
Awareness about the concept:

The question are asked on the basis to know the basic awareness of the concept of both E-payment or digital payment option and Digital currency among the respondents, among total respondents 91.1% of them are aware and using the E-payment option by banking or other private sector and 7.3% are not using any of these e-payment options in their day today transactions and remaining 1.6% are using but not independently they use these digital payment options with the help of others. When the rating for the same is asked 26.6% were opinion as excellent, 62.1% as Good, 8.9% as fair or average and remaining 9.7% are says not applicable since they are not using any digital payment option.



Picture 5 : Awareness of Digital Currency.

The same question is asked on Digital currency and digital payment are differ from each other, 71.8% of them were aware and remaining 28.2% are not. About its awareness, 39.5% were aware, 24.2% were not and remaining 36.3% were know about the Digital Currency but not completely how it works.



Picture 6 : Investments on Digital Currency.

When Question is asked about, is any of the respondents are actually invested or purchase of any such digital currency, the answers were 23.4% yes, 46% no, 26.6% want to invest in future and remaining 4% says not applicable since they do not have any idea about digital currency .

It's asked to know that, do they find any advantages of digital currency over normal currency, the answers were like 64.5% says yes, remaining 35.5% were says no. and the question on acceptance of digital currency when its normalised as physical currency, 38.7% were said yes, 16.9% said no and remaining 44.4% ready to accept only when there is complete assurance by centralised authority. As per their opinion the digital currency's impact on economy, 44.5% agreed in favour, 15.3% were unfavoured towards the same and 41.2% were not having the idea of economic impact.

FINDINGS

It can be seen from the above analysis, that number of variances in knowing digital currencies and investing or purchasing the same. And their perception towards how it works and what are the uses is vague not among respondents.

1. Majority of the people are ready to accept digital currency completely only when is an optimal assurance by centralised authority like banks, governments or any other institution.
2. There is some deficiency in complete awareness of the concept of Digital currency and its functions among many respondents
3. But there is high level of efficiency is usage of digital banking options rather than traditional concept.
4. Most of the respondents want a digital currency to be handled by centralised authority and it could be additional digital currency to the existing physical currency sudden change will bring a drastic negative impact on economy and general public.
5. Some opinion that the digital currency is not easy to handle by everyone.
6. Since the study covered most of the responses from young generation and who are most likely to adopt new innovation and changes in technology.

SUGGESTIONS

1. First and foremost, the centralised authorities should take step to create awareness among general public
2. Assuring the digital currencies with complete security as highly as possible, that will make the general public to accept easily.
3. Instead of sudden change in currency distribution, the central government should take a step-by-step action and verify the success rate of introducing the digital currency.
4. Issuing the digital currency as alternative to existing physical currency should be an initial step. So that who are having clear idea about it can use it and remaining to have option to use the exiting currency.
5. Study on Indian economy by economists and logical implementation should happen in the process.

CONCLUSION

Digital currency in the banking industry can increase the speed of domestic and cross border transactions. It can reduce transaction costs and has the potential to broaden the access of the financial system to rural households. However, it can also destabilize the financial markets and intensify contagion from one market to the other. Therefore, it is essential to study its effects before moving forward.

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