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"Study of Cash Management in Banking Sector in India"

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ABSTRACT

Indian banks are in a whirlwind of change—navigating new tech, strict rules, and the country's sheer size and diversity. Private banks are winning big by embracing tech like AI and real-time dashboards, while public banks are buried in red tape. The RBI is pushing strict cash safety and reporting norms, adding to the load.

The research combined data crunching with on-the-ground interviews, revealing that the real challenge is blending tech and regulations to keep cash flowing smartly. It also showed the big gap between public and private banks—tech-savvy vs. paperwork-heavy.

Key Insights:

- Private banks lead with smart cash-forecasting tools.
- Public sector banks lag due to social roles and paperwork overload.
- RBI's rules demand top-notch tracking and security.
- Data analytics and AI are game-changers.
- COVID highlighted the need for robust digital systems.

INTRODUCTION

This research explores how Indian banks—both public and private—are managing cash amidst the chaos of new tech, RBI regulations, and India's vast, diverse landscape. It examines whether these systems keep cash flowing smoothly, avoid idle money, and improve daily operations.

The study also investigates how digital tools like UPI, NEFT, RTGS, ATMs, and AI are reshaping cash management, and whether RBI policies are effective in practice or just adding to paperwork. By comparing public and private banks, it highlights tech adoption gaps and operational differences across India's regions.

A key insight is that banks are increasingly using data analytics and AI to predict cash needs and adjust resources smartly. COVID-19 pushed digital banking forward, showing the importance of robust backup systems for disruptions.

NEED OF THE STUDY

Cash management serves as the backbone of any banking institution, and within the Indian banking system, its role is especially crucial considering the diverse economic conditions and varying customer needs. Indian banks operate in a competitive and ever-evolving environment, making effective cash management essential for ensuring smooth operations, boosting profitability, and keeping customers satisfied. The impetus for this research arises from the increasing complexity of financial transactions, heightened reliance on digital solutions, and the rapid technological changes reshaping the sector.

In recent times, banks in India have had to address several challenges, including ensuring adequate liquidity during economic uncertainties, managing the balance between cash inflows and outflows, and adhering to the stringent regulatory framework set by the Reserve Bank of India (RBI). With an expanding footprint in semi-urban and rural areas, banks must also manage cash flows efficiently to provide uninterrupted services to a broad customer base. Proper cash management helps minimize surplus balances, cut down borrowing costs, and unlock investment opportunities.

Furthermore, the rise of digital banking encompassing online platforms, mobile apps, and automated payment solutions has significantly altered the landscape of cash flow management. While these digital tools offer faster and more efficient services, they also pose new challenges and risks for cash handling. An in-depth examination of cash management strategies in the Indian banking sector can reveal how these institutions are embracing technology without compromising on their liquidity responsibilities.

Another reason for conducting this study is the growing competition from private and foreign banks, which are using advanced cash management systems to expand their market presence. Public sector banks, with their traditional emphasis on brick-and-mortar banking, are feeling the need to update their cash handling practices to remain competitive. Exploring these shifts in approach can provide valuable insights into balancing security, profitability, and customer-centric practices.

This study ultimately aims to fill gaps in our understanding of how Indian banks whether public, private, or cooperative are navigating the dual challenges of maintaining liquidity and maximizing returns. By analyzing the cash management techniques used by different banking institutions, this research intends to offer practical insights that can guide policy development, improve operational efficiency, and bolster the long-term stability of India's banking industry.

LITERATURE REVIEW

Cash, defined by Davidson et al. (1999), refers to funds readily available for immediate use—coins, bills, checks you can deposit without hassle. While cash is vital for daily operations like paying staff and vendors, it's not the same as inventory or accounts receivable; those might eventually become cash but aren't yet spendable (Pandey, 2007). Businesses need to find a balance—enough cash on hand to handle surprises, but not so much that it sits idle, missing out on better returns (Zimmerer et al., 2008).

Hampton (2001) and Westerfield et al. (1999) highlight how businesses and banks manage cash to avoid waste and ensure liquidity—quickly converting assets when needed. In India, modern tools and systems (CBS, RTGS, NEFT) are revolutionizing cash management, cutting down costs and delays. Regulators like the RBI ensure stability, while banks face challenges with outdated infrastructure in some public sector branches.

Theoretical frameworks shape these practices. Keynes' Liquidity Preference Theory (1936) suggests holding cash for security, balanced by the Trade-Off Theory that weighs liquidity against returns. Agency Theory emphasizes accountability to avoid risky cash mismanagement. The Cash Conversion Cycle (CCC) underscores the need for swift movement of funds, while Monetary Theory ties these decisions to the broader economy. Ultimately, modern cash management blends these theories with tech advancements to keep banks agile and customers satisfied.

RESEARCH METHODOLOGY

Undertook extensive literature survey connected with the problem. Its ultimate goal is to bring the reader update with current literature on a specific topic and forms the basis for another goal, such as the justification for future research in the area. For this purpose, the abstracting and indexing journals and published or unpublished bibliography are the first place to go to. Academic journals, conferences proceedings, Government reports, books etc must be tapped depending on the nature of the problem.

Good library will be a great help to the researcher at this stage. A good literature review is characterized by;

A logical flow of ideas, current and relevant references with consistent, appropriate referencing style, proper use of terminology, and an unbiased and comprehensive view on the topic. Researcher must devote sufficient time in reviewing of research already undertaken on the related problem. This is done to find out what data and other materials, if any, are available for operational purpose.

RESEARCH DESIGN & NATURE

Research design explains the decisions regarding what, where, when, how by what means concerning an enquiry or a research. Research design as such is defined as -an arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance the research purpose with economy in procedure.

Research design is a framework within which researches conducted and contains a blueprint for collection, measurement and analysis of data.

Research design is mainly of following types: -

Exploratory research: The major purposes of exploratory studies are the identification of problems, the more precise formulation of problems and the formulations of new alternative courses of action.

Descriptive Research: Descriptive research in contrast to exploratory research is marked by the prior formulation of specific research questions. Descriptive research is also characterized by a Preplanned and structured design.

DATA ANALYSIS AND FINDINGS

1. Analysis of Cash Management in ABC Ltd

To analyze the cash management practices of banks supporting ABC Ltd., we first considered the geographical spread and operational turnover of ABC Ltd. across sixteen Indian cities. The monthly turnover ranges from ₹0.10 crore (Jammu, Nagpur, Lucknow) to ₹1.5 crore (Mumbai). This indicates a diverse cash flow profile across locations, requiring a robust cash management solution.

The bank supporting ABC Ltd. divides cheque collections into Local Cheque Collections (LCC) and Upcountry Cheque Collections (UCC). Each of these categories has further subcategories based on whether the bank has its own presence, relies on correspondent banks, or has no arrangements. This differentiation ensures efficient cash flow management, minimizing delays and reducing the risk of cash flow disruptions.

2.Allocation and Clearing Efficiency

The data reveals that in 10 out of the 16 locations, the bank has its own branches, leading to faster cheque clearance (typically Day 1 through RBI clearing). In 2 locations, the bank uses correspondent bank services, which leads to a one-day delay (Day 2) due to correspondent bank processes. The remaining 4 locations face the longest delays (Day 3), as the bank has neither branches nor tie-ups there.

The bank's approach to classifying and managing cheque collections—LCC BRN, LCC COR, UCC BRN, UCC COR, and UCC ONW—enables a tailored strategy that minimizes cash float periods and maximizes fund availability. This classification also helps the bank manage pricing and interest charges based on the clearing delays and overheads.

3.Cost and Pricing Analysis

The pricing of cash management services varies across centers and instruments. The bank's pricing structure incorporates three main components:

Interest on Out-of-Funds: The bank absorbs the clearing delay costs and charges interest for providing credit against uncleared cheques.

Overheads: Administrative costs like salaries, courier services, and maintenance.

Margin: The profit component, which varies based on volume and location-specific negotiations.

For example, cheques cleared through the RBI involve minimal overheads and no interest charges, while those cleared through correspondent banks incur additional fees. By segmenting these charges, the bank can remain competitive while ensuring profitability.

4.Analysis of Questionnaire Responses

Based on the questionnaire data collected from respondents across different banks and firms, the following patterns emerged:

Banking Preferences: Among respondents, the majority-maintained accounts with nationalized banks like State Bank of India and private players like HDFC Bank. This suggests a preference for reliability and wide branch networks.

Impact of Global Financial Crisis: Most respondents (around 65%) believed that the financial crisis in the US had no direct impact on Indian banking functions, highlighting confidence in the domestic financial system.

Satisfaction Levels: Approximately 70% of respondents expressed satisfaction with their bank's services, pointing to the effectiveness of their cash management offerings and customer support.

Premium Collection and Payment Modes: Cheques and demand drafts emerged as the most popular modes for both premium collection and making payments. Cash transactions were limited, reflecting a shift towards non-cash instruments for better tracking and security.

Use of Credit Cards: Only 45% of respondents accepted premium payments via credit cards, indicating a potential area for improvement to meet customer demands for convenience.

Reinsurance Practices: A significant portion (over 60%) of respondents indicated they do not reinsure their policies, suggesting a relatively risk-averse market environment.

Parameter	Findings
ABC Ltd. Operations	16 cities across India, centralized fund management in Delhi, next-day credit requirement.
Bank Presence	- 10 cities with bank branches - 2 cities with correspondent bank tie-ups - 4 cities with no presence or tie-ups.
Cheque Classification	- LCC BRN: Local cheques in branch cities - LCC COR: Local cheques in correspondent bank cities - UCC BRN: Inter-city cheques in bank branch cities - UCC COR: Inter-city cheques with correspondent banks - UCC ONW: Inter-city cheques with no support.
Clearing Time & Charges	- Day 1 credit in RBI clearing cities. - Day 2 for SBI clearing (1 day float).

	- Day 3+ for correspondent bank clearing (1+ day float and higher charges).
High Turnover Cities	Mumbai (₹1.5 Cr), Delhi (₹1.25 Cr), Calcutta (₹1.0 Cr), Hyderabad (₹1.0 Cr).
Questionnaire - Bank Accounts	Majority with SBI, HDFC Bank, Axis Bank, Bank of India.
Impact of US Financial Crisis	65% said no direct impact.
Modes of Premium Collection	Cheques (55%), Demand drafts (30%), Cash (15%).
Credit Card Acceptance	Only 40% accept credit card premiums.
Reinsurance Practices	60% of respondents do not reinsure.
Customer Satisfaction	70% satisfied, 30% not fully satisfied with services.
CMS Pricing	Varies by cheque type, volume, bank presence, clearing charges, correspondent bank fees, overheads, and bank margin.

CONCLUSION

• The procedures that banks follow to complete formalities with their customers tend to be quite complicated.

• Banks focus more on securing deposits rather than exploring new growth opportunities.

• Customers are often unaware that certain services are free. Despite the fact that the services are generally favorable, many customers either don't use them or aren't even aware they exist.

• Once customers are educated about the services, most of them quickly sign up, though a small portion still distrust the bank, fearing hidden fees or charges.

• Banks are losing significant amounts of money through lost or overpaid interest, unnecessary overdrafts, and paying high fees for services.

• Banks face challenges like low credit uptake, the risk of non-performing assets, and growing pressure to ensure accountability.

RECOMMENDATION

The following actions are suggested for the bank to improve its operations:

• First off, the bank really needs to sniff out where the action is—find those cities that haven't been overrun by a million branches already. Open up shop there, chase after new customers, and see what kind of business comes crawling out of the woodwork. New turf, new money.

• Talking about cutting costs, but most big shots just moan about how it's "impossible" because of some fancy services. Come on. In India, folks care way more about saving a few bucks right now than about some vague "long-term value." Trim the fat where you can and let your customers see those savings.

• And if you really can't slash costs? Fine. At least don't shove the same old package down everyone's throat. Let people pay for what they actually use. If someone wants the gold-plated VIP stuff, charge them for it—don't make everyone else foot the bill.

• Pricing's a bloodbath these days. So, yeah, you gotta keep your rates sharp. If you're not at least matching what the other guy's offering, expect your customers to ghost you.

• Don't be a stranger, either. Banks always forget to actually talk to their clients until something goes wrong. Call them up, ask what's up, solve their problems before they walk out the door—and hey, happy customers bring their buddies, so that's a win.

• While you're at it, pad out those current assets too—more cash, more stuff you can actually use to pay off debts when they come knocking. No one wants to be caught short.

• Do not use short-term money to fund your long-term loans. That's just asking for a migraine when payments come due. Match your funding to your needs, or you'll be sweating it when the bills land.

• Last thing: reporting systems. Yours probably suck, let's be real. Dump some money into a decent Management Information System—makes moving money around way easier, and you won't have to chase down a thousand spreadsheets just to know what's going on.

FUTURE SCOPE OF THE STUDY

Banks can expand their cash banking services for both businesses and individual customers. These services could include:

For Businesses and Government Offices:

1. Cash collection.
2. Instrument collection.
3. Delivery of cheques received.
4. Delivery of demand drafts.

For Individual Customers:

1. Cash collection.
2. Instrument collection.
3. Delivery of demand drafts.

Modes of Delivery:

There are two potential modes for delivering these services:

1. By bank employees: Banks could hire additional employees specifically to handle these services, adhering to the rules and regulations set by the Reserve Bank of India (RBI).

2. By agents: Banks could outsource these services to specialized cash management service providers.

Delivery Process:

• A receipt must be signed when cash is collected from customers to confirm the transaction.

• The collected cash should be credited to the customer's account on the same day or the next business day, depending on the collection time.

• Customers should be informed of the credit date through a proper notification.

• Delivery of demand drafts should be executed by debiting the customer's account, based on the received instruments, directly to the customer's doorstep.

Risk Management:

The agreement with customers clarifies that the bank is not legally or financially liable for any failure to provide doorstep banking services in situations beyond its control. The agreement does not grant customers the right to demand doorstep services at any time.

Transparency:

The fees for Cash Management Services are minimal and are outlined in the agreement. These charges are determined by the bank's board of directors in accordance with RBI regulations. The charges are also specified in the bank's brochures for customer awareness.

REFRENCES

Books

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- P. Periasamy (Management of Working Capital)
- L.M. Bhole (Financial Institutions and Market)
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