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STUDY OF CASH MANAGEMENT IN BANKING SECTOR OF INDIA

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Abstract

Cash management is a broad term that covers a number of functions that help individuals and businesses process receipts and payments in an organized and efficient manner. Administering cash assets today often makes use of a number of automated support services offered by banks and other financial institutions. The range of cash management services range from simple checkbook balancing to investing cash in bonds and other types of securities to automated software that allows easy cash collection.

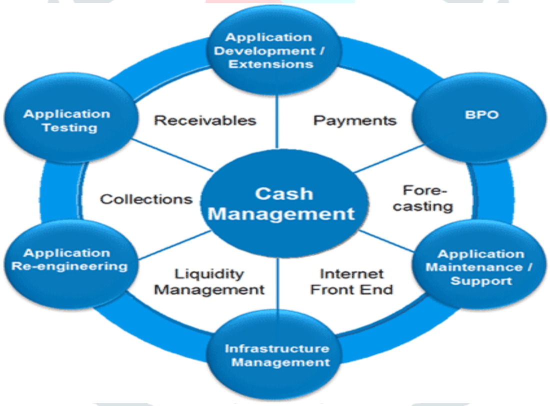
When it comes to cash collections, there are a few popular options today that can make the process of receiving payments from customers much easier. Automated clearing houses make it possible to transact a business to business cash transfer that deducts the payment from the customer account and deposits the funds in the vendor account. Generally, this service is available for a fee at local banks

INTRODUCTION

Cash management has the following purposes: controlling spending in the aggregate, implementing the budget efficiently, minimizing of the cost of government borrowing, and maximizing the opportunity cost of resources (the last two purposes yielding interest). Control of cash is a key element in macroeconomic and budget management. However it must be complemented by an adequate system for managing commitment. For efficient budget implementation, it is necessary to ensure that claims will be paid according to the contract terms and that revenues are collected on time. It is necessary to minimize transaction costs; and to borrow at the lowest interest rate or to generate additional cash by investing in revenue-yielding paper. It is also necessary to avoid paying in advance and to track accurately the dates on which payments are due.

In developing countries, governments often do not pay attention to issues related to cash management. Budget execution procedures and the management of cash flows focus on compliance issues, while daily cash needs in are met at low cost by the Central Bank. Spending units are not concerned with borrowing costs since their interests are already taken account in the budget prepared by the Ministry of Finance.

However, the costs of borrowing, the fact that the credit granted to the government by the banking system is a key macroeconomic target and a performance criterion in IMF-supported financial programs, and the increasing separation between the activities of the Central Bank and the government budget make cash management more important. Performance concerns have also had an impact on cash management and some countries have implemented reforms to make spending agencies more responsible for cash, while maintaining instruments to ensure fiscal discipline.



AN INTRODUCTION TO THE BANKING SECTOR IN INDIA

Banks are the most significant players in the Indian financial market. They are the biggest purveyors of credit, and they also attract most of the savings from the population. Dominated by public sector, the banking industry has so far acted as an efficient partner in the growth and the development of the country. Driven by the socialist ideologies and the welfare state concept, public sector banks have long been the supporters of agriculture and other priority sectors. They act as crucial channels of the government in its efforts to ensure equitable economic development.

The Indian banking can be broadly categorized into nationalized (government owned), private banks and specialized banking institutions. The Reserve Bank of India acts a centralized body monitoring any discrepancies and shortcoming in the system. Since the nationalization of banks in 1969, the public sector banks or the nationalized banks have acquired a place of prominence and has since then seen tremendous progress. The need to become highly customer focused has forced the slow-moving public sector banks to adopt a fast track approach. The unleashing of products and services through the net has galvanized players at all levels of the banking and financial institutions market grid to look anew at their existing portfolio offering. Conservative banking practices allowed Indian banks to be insulated partially from the Asian currency crisis. Indian banks are now quoting al higher valuation when compared to banks in other Asian countries (viz. Hong Kong, Singapore, Philippines etc.) that have major problems linked to huge Non Performing Assets (NPAs) and payment defaults. Co-operative banks are nimble footed in approach and armed with efficient branch networks focus primarily on the 'high revenue' niche retail segments.

The Indian banking has finally worked up to the competitive dynamics of the 'new' Indian market and is addressing the relevant issues to take on the multifarious challenges of globalization. Banks that employ IT solutions are perceived to be 'futuristic' and proactive players capable of meeting the multifarious requirements of the large customer's base. Private Banks have been fast on the uptake and are reorienting their strategies using the internet as a medium The Internet has emerged as the new and challenging frontier of marketing with the conventional physical world tenets being just as applicable like in any other marketing medium.

Cash management practices in India

This examines the cash management and payments developments in India, in terms of bank offerings and new corporate best practice.

Traditionally having a paper-based clearing system involving not only high processing cost but security risk, cash management in India has certainly undergone a paradigm change. From a product-centric approach, the focus for almost all banks today has shifted emphatically to the customer. And success is all about bringing the maximum possible delivery channels to the prospect's doorstep.

In the rapidly transforming world of business, banking faces its biggest challenge yet - constant change. With every bank seeming to offer service possible, efficiency coupled with innovative value added solutions have emerged as the key business differentiators that affect a bank's bottom line. Confronted with shrinking deposits/margins, rising customer expectations and intensifying competition, banks must at all times strive to be a step ahead of industry standards. At the same time, they cannot lose sight of credit risk, a natural byproduct of the increasingly complex relationships in today's dynamic markets.

For some time now, technology has been the key driving force behind every successful bank. In such an environment, the ability to recognize and capture market share depends entirely on the bank's competence to evolve technically and offer the customer a seamless process flow. The objective of a cash management system is to improve revenue, maximize profits, minimize costs and establish efficient management systems to assist and accelerate growth.

Today a corporate treasurer's dilemma is multifaceted. With more movement towards the regional/central liquidity management in the complex structure of rules and regulations, further complication is caused by taxation issues.

I describe what a corporate treasurer needs as VOC - Visibility of funds, Optimized returns on funds, and Control over receivables and payables. Treasury can face a number of issues related to the slow movement of funds, locked working capital, loss of float income, high cost of funds, time consuming reconciliation and manual processes. In India the cash management business primarily involves collections and payments services.

OBJECTIVE OF THE STUDY

Objectives of a project tell us why project has been taken under study. It helps us to know more about the topic that is being undertaken and helps us to explore future prospects of that organization. Basically it tells what all have been studied while making the project.

- To learn about various aspects of cash management.
- To gain insights about functioning of cash management.
- To explore the future prospects of cash management

LITERATURE REVIEW

According to (Davidson et al, 1999), cash is any medium of exchange, which is immediately negotiable. It must be free of restriction for any business purpose. Cash has to meet the prime requirements of general acceptability and availability for instant use in purchasing and payment of debt. Acceptability to a bank for deposit is a common test applied to cash items. This is a process of Planning, controlling, and accounting for cash transactions and cash balances. It is channeling available cash into expenditures that enhance productivity, directly or indirectly.

In addition, Cash is ready money in the bank or in the business. It is not inventory, it is not accounts receivable (what you are owed), and it is not property. These might be converted to cash at some point in time, but it takes cash on hand or in the bank to pay suppliers, to pay the rent, and to meet the payroll. Profit growth does not necessarily mean more cash. (Davidson et al, 1999)

Cash is the important current asset for the operations of the business. Cash is the basic input needed to keep the business running on a continuous basis: it is also the ultimate output expected to be realized by selling the service or product manufactured by the firm. The firm should keep sufficient cash, neither more nor less. Cash shortage will disrupt the firm's manufacturing operations while excessive cash will simply remain idle. Without contributing anything towards the tint's profitability. Thus, a major function of the financial manager is to maintain a Sound cash position. (Pandey, 2007)

Cash is the money which a firm can disburse immediately without any restriction. The term cash includes coins, currency and cheques held by the firm, and balances in its bank accounts. Sometimes near-cash items, such as marketable securities or bank times deposits, are also included in cash. The basic characteristic of near-cash assets is that they can readily be converted into cash. Generally, when a firm has excess cash, it invests it in marketable securities. This kind of investment contributes some profit to the firm. (Hampton, 2001)

Waltson and Head (2007) explained Cash management as the concept which is concerned with optimizing the amount of cash available, maximizing the interest earned by spare funds not required immediately and reducing losses caused by delays in the transmission of funds.

According to Zimmerer et al (2008) cash management is the process of forecasting, collecting, disbursing, investing, and planning for cash a company needs to operate smoothly. They further added that cash management is a vital task because it is the most important yet least productive asset that a small business owns. A business must have enough cash to meet its obligations or it will be declared bankrupt. Creditors, employees and lenders expect to be paid on time and cash is the required medium of exchange.

However, some firm retain an excessive amount of cash to meet any unexpected circumstances that might arise. These dormant cash have an income-earning potential that owners are ignoring and this restricts a firm’s growth and lowers its profitability. Investing cash, even for a short time, can add to company’s earning. Proper cash management permits the owner to adequately meet cash demands of the business, avoid retaining unnecessarily large cash balances and stretch the profit generating power of each dollar the business owns (Zimmerer et al, 2008).

Cash management is particularly important for new and growing businesses. (Jeffrey P. Davidson et al, 1992) indicated in their book that cash flow can be a problem even when a small business has numerous clients, offers a superior product to its customers, and enjoys a sterling reputation in its industry.

Companies suffering from cash flow problems have no margin of safety in case of unanticipated expenses. They also may experience trouble in finding the funds for innovation or expansion. Finally, poor cash flow makes it difficult to hire and retain good employees.

Westerfield et al, 1999 noted that it is important to distinguish between true cash management and a more general subject of liquidity management. The distinction is a source of confusion because the word cash is used in practice in two different ways.

First, it has its literal meanings, actual cash on hand. However, financial managers frequently use the word to describe a firm's holdings of cash along with its marketable securities, and marketable securities are sometimes called cash equivalents or near cash. In our distinction between liquidity management and cash management is straightforward, they added.

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.

Casual Research: A casual design investigates the cause and effect relationships

Between two or more variables. The hypothesis is tested and the experiment is done.

The study that was carried out in this project is Analytical and Exploratory kind of research in which an attempt is made it explore as much information as possible about the cash management.

DATA COLLECTION

There are two types of data:

- **Primary Data:** These data are collected first time as original data. The data is recorded as observed or encountered. Essentially they are raw materials. They may be combined, totaled but they have not extensively been statistically processed. For example, data obtained by the peoples.

- **Secondary Data:**Sources of Secondary Data are Official Publications, Publications Relating to Trade, Journal/ Newspapers, Data Collected by Industry Associations, Unpublished Data etc.

My main source of data collection for this project report is Secondary Data.

CONCLUSION

- The policies which the bank adopt to complete the formalities from their customers are very complex.
- Banks are much more conscious for deposits rather than exploring the new opportunities for growth.
- Customers are not aware that the service was a free one, this is clear that almost all the attributes of the services are favorable to the customers still customers are not using the service and are not even aware of it
- Almost all customers once educated about the service readily enrolled for it whereas a mere portion did not trust the bank and thought that the bank would have some hidden charges that they are not putting forward.
- Banks are losing millions in lost and overpaid interest, using unnecessary overdraft facilities and incurring significant fees for doing.
- Banks are suffering from low credit off take and possibility of non-performing assets, and also the increasing stress on accountability.

FUTURE SCOPE OF THE STUDY

Banks can offer the following cash banking services to the bank customer:

a) Business/ Government offices etc. (i) collect the cash, (ii) collect the instruments, iii. Performing cash delivery for the cheque received, iv. Performing delivery of demand drafts.

b) Individual Customers/Natural persons: i. collect the cash, ii. Collect the instrument, iii. Performing delivery demand draft.

Modes of delivery: i. By own employees , ii. By agents.

Bank can offer Cash Management Services to the Customers and offer door step banking to deliver these services they are having two modes.

By own employees means banks can recruit more employees specially for providing these services as per the rules and regulations of RBI.

By agents means bank can outsource these services to some cash management service provider.

Delivery process: i. Cash received from customers must be signed by giving a receipt on behalf of the bank, ii. Cash received from the customer must be credited to the account of customers on that day only or next working day, based on the time of collection, iii. The customers must be known about the date of credit by giving a proper advice, iv. Delivery of demand drafts must be done by debit to the customer's account on the basis of instruments received at the customer doorstep.

Risk Management

It is confirmed that the agreement done with the customers does not have any legal or financial liability on the bank for fail to offer doorstep banking services under situation beyond the control. The agreement is not abide to give any right to the customers to claim the services at his doorstep. .

Transparency

The charges for the customers to provide the Cash Management Services are nominal and it is available on the agreement and decided by the board of directors and according to the rules and regulations of RBI. The charges available on the brochures of the respective bank who offer these services.

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  - ✓ P.Periasamy (Management of Working Capital)
  - ✓ L.M Bhole (Financial Institution and Market)
- Referred to Book CASH MANAGEMENT MADE EASY for better understanding of the concept