



DEMONETIZATION: AN INITIATIVE TOWARDS CASHLESS ECONOMY

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ABSTRACT

Demonetization is a process of stripping down a particular currency as a legal tender act as a link between the process of digitalization and cashless economy. The paper discusses about digitalization and demonetization along with the transition from paper economy towards the cashless economy and ways, means, obstacles in this process. The Digital India programme is a flagship programme of the Government of India with a vision to transform India into a digitally empowered economy "Faceless, Paperless, Cashless" is one of professed role of Digital India. The concept is conceptual in nature and data collected is majorly from secondary sources. Major concern is given to the benefits, challenges and ways to achieve cashless economy. Demonetization has brought with it many pros and cons but it has served as a way to make people aware about the different sources of transaction making them digitally literate and taking them one step forward to the new era of life. With pain and suffering like shortage of money in banks, ATM's, long queues etc. But there have been gains where in which people got some sort of confidence in using these different apps for making transactions in financial matters as they were left out with no options. Making economy cashless is one of the noble tasks in the phase of economic development but is a tiring effort which may go in wane if not implemented and monitored by the concerned authorities. Going completely cashless is like having a dream come true as no country in the world is completely called as a cashless economy.

KEY WORDS: *Demonetization, Digitalization, Cashless, Flagship.*

INTRODUCTION

Demonetization is the act of stripping down a particular currency as legal tender which occurs when there is a change of national currency: The current form or forms of money is dragged out from circulation, and is replaced with new notes or coins. In some cases, a country may replace the old currency with totally new currency. This process of demonetization in India is not a recent concept but India has demonetized its currency previously which has not come into light much. Talking about the demonetization historically had demonetized Rs.100 and Rs.1000 currency notes in January 1946 and new notes of Rs.100, Rs.500 and Rs.1000 were introduced in 1954? Later on, in 1978 India again went through the process of demonetization by demonetizing currency notes of Rs.1000, Rs.5000 and Rs.10000. but this step was not in terms of making India cashless society but it was a means to curb with black money, corruption and removal of fake currency which were introduced in 1954. This phase of demonetization may have gone in wane as the scenario of our economy was totally different if we compare it with today because the population was too less, rampant poverty situation where people had too less pay, banking sector was too weak, people were dependent on agriculture sector and the concept of ATM was never to be heard in those days. The government had to remove these high value currency notes from circulation due some of the above mention reasons as these currencies have high value had a zero value as people cannot afford to carry such a huge amount on one single piece of paper.

RECENT DEMONETIZATION IN INDIA

The recent demonetization took its place on 8, November 2016 which shook the whole economy all of a sudden; Government of India announced the demonetization of all Rs.500 and Rs.1000 banknotes. The government claimed that the action would curtail the black money and crack down on the use of counterfeit cash to fund illegal activities. Along with these benefits the process was taken as attempt to make India digital in financial transactions too, make the citizen aware about the importance of online transactions which may help them in many ways and make them digitally literate by this attempt. But this attempt of demonetization took its own turn by providing its advantages as well as its disadvantages. Some were happy and some were not by this act. The country had to suffer in the beginning term as there was insecurity among the people about the money which they were holding with in hand, people rushing towards banks for exchange, no ATM's had cash, many activities were stuck and the GDP was hit low by 1% soon



after this process took its event. But this made the people to use the digital methods of financial transaction, new apps were introduced, people wanted to learn about these new aspects by themselves. Demonetization has done some bad to the economy but it made the people realize about the importance of going digital. It has served a link between the digitalization process and the way to cashless economy.

CASHLESS ECONOMY

The word cashless is characterized by the exchange of funds, cheque, debit or credit cards, electronic methods rather than the use of cash. A cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal. As India uses too much cash for transactions in 2016 budget speech, talked about the idea of making India a cashless society, with the aim of curbing the flow of black money.

Even the RBI had unveiled a document - "Payments and Settlement Systems in India: Vision 2018" - setting out a plan to encourage electronic payments and to enable India to move towards a cashless society in the future days. The RBI has reduced or removed the minimal charges on the various transactions to promote these measures, where in which people should feel confident in making uses of these methods, security measures have been improved so that people should not feel insecure about their cash in the banks with many private players playing a significant role.

SIGNIFICANCE OF THE STUDY

The importance of this research is to know upto what extent the process of digitalization has taken place with the number of people using different sources of financial transactions like ATM's, Mobile Banking, Net Banking, NEFT, Paytm and how demonetization has helped in promoting or reaching the goal of cashless economy and what all problems and obstacles the present government will face in reaching the objective of cashless economy. The paper also analyse the number of transaction or payments made in the span of four years from October, 2013 to October, 2016 and the immediate change before demonetization and after demonetization period with time span of one month. The paper stresses on the ways and measures to promote and achieve the objective of cashless society. Keeping above aspects in concern the study is based on objective to know the, immediate impact on the banking transactions after demonetization and to understand the pros and cons of going cashless.

METHODOLOGY

The paper is conceptual in nature and is based on secondary data collected Reserve Bank of India Bulletin, for a period of 2013 to 2016 and the study concentrates for immediate impact period of demonetization. Various research articles and papers have been reviewed to bring in the necessary information. To understand the percentage change in banking transactions (in billions) from various modes and to examine the highest and lowest growth rate the following formula has been applied:

$$\text{Percentage Change} = \frac{\text{Present Value} - \text{Past Value}}{\text{Past Value}} \times 100$$

The analysis was done to show comparison in flow of banking transactions in various years. The researcher tries to analyze whether demonetization has made India to shift towards cashless economy.

CASHLESS ECONOMY: WAY TOWARDS FUTURE

The process of digitalization has paved the way for achieving cashless economy through various modes of transaction like Internet banking, also known as online banking, e-banking or virtual banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website. The basic objective of cashless economy is concerned with e-payments, swipe cards with Point of Sale (POS). Different modes which have helped in this process are digital wallets like Paytm, PayUmoney, State Bank Buddy, JioMoney etc.. along with the digitalization, demonetization also helped in achieving the goals of cashless economy where in the people where forced to use these methods of payments. The demonetization move that initially paralyzed the economy is now catalyzing the country's digital payments ecosystem.

Benefits

1. **Reduced Tax Avoidance:** Tax defaulters are at loss as the bill provide have to be accurate when you make an online transfer as it is recorded online *i.e.*, transaction trails are left. Misuse of funds allocated by government or institutions can be avoided.

2. **Curbing Black Money:** People taking corruption have to end their activities as unaccounted money will not be in transaction as whatever transaction is to be made online. There will be an end to corruption, red tapism, unaccounted bills etc.
3. **Universal Availability and Acceptability of Banking Services:** It will provide all the availability and acceptability of banking services to all as no physical infrastructure is needed other than digital. The cost of maintaining banks, banking accessories, ATMs will reduce as people will only be dependent on online transactions which has low cost.
4. **Greater Efficiency in Welfare Programmes:** There will be greater efficiency in welfare programmes as money is wired directly into the accounts of recipients. There is transparency in payment procedures as no one can cheat anyone and there is less chances for making frauds. Each transaction is recorded and payments can be easily traced and collected, and level of corruption will automatically go down, so people will no longer have to pay to collect what is rightfully theirs.
5. **Currency Check:** One in seven currency notes was supposed to be fake, which has a huge negative impact on economy, by going cashless, that can be avoided. Writing on currency notes and stains are a norm in India.
6. **Accuracy and Efficiency:** Speed and satisfaction of operations for customers, no delays and queues, no interactions with bank staff required. Within seconds money can be transferred from one place to another, payments can be made on the same day without any delays.

Detriments

1. **Security Issues:** Security issues are a great threat for going cashless as many cybercrimes taking place, hacking of accounts can be done. Banks servers get hacked in 3 to 4 hours by the hackers in India. Security measure have to upgraded otherwise people may lose the confidence in the system. Online transaction scams are at a hike with many losing their hard-earned money.
2. **Interoperability:** Usually establishments accept payments from only specific wallets and cards. Maestro cards or Amex are not all that popular. Sometimes making payments are difficult as debit or credit cards or m-wallets do not work at many places. Companies, sites, or institutions have specific payment procedure.
3. **Difficulties and Risks:** It is not simple to start on with e-payments as some banks charge you for VISA or Mastercard enabled debit cards. Not so simple to use, especial as USSD codes are tough to remember. It is risky to use these wallets as most of these wallets have still not implemented the advanced security needed for banking.

GROWTH IN BANKING TRANSACTIONS FROM 2013-2016

Table 1 represents the percentage change in the modes of payments or financial transaction in value of billions between 2013-2016. As per the results there has been a significant growth in cashless banking transactions over these four years. Mobile banking grew at 98.25 percent from just 19.75 to 1134.98 billion transactions, followed by Immediate Payment Service (IMPS), money wallet, credits cards and NEFT at 97.86, 93.73, 60.11 and 59.38 percent, respectively. Least change was observed under RTGS, Debit card and Cheque transactions at 26.25, 31.64 and 37.15 percent, respectively. It can be clearly indicated the population in India was adopting towards new cashless modes. Overall growth in payment system moved at steady pace before the demonetization announcement.

Table 1. Changes in the financial transactions from 2013-2016

Payments	2013	2014	2015	2016	Change (in %)
NEFT	3860.15	4781.5	6906.88	9504.5	59.38
RTGS	71945.4	69825.27	80764.99	97554.34	26.25
Debit Cards	1799.95	2042.57	2328.72	2633.19	31.64
Credit Cards	120.26	173.14	219.5	301.5	60.11
IMPS	7.32	48.99	137.04	343.57	97.86
Mobile Banking	19.75	90.35	305.68	1134.98	98.25
Cheque Transaction	3754.68	5626.36	5806.75	5974.14	37.15
Money Wallet	2.12	7.01	15.45	33.85	93.73

Source: Reserve Bank of India Bulletin, Payment System Indicators.

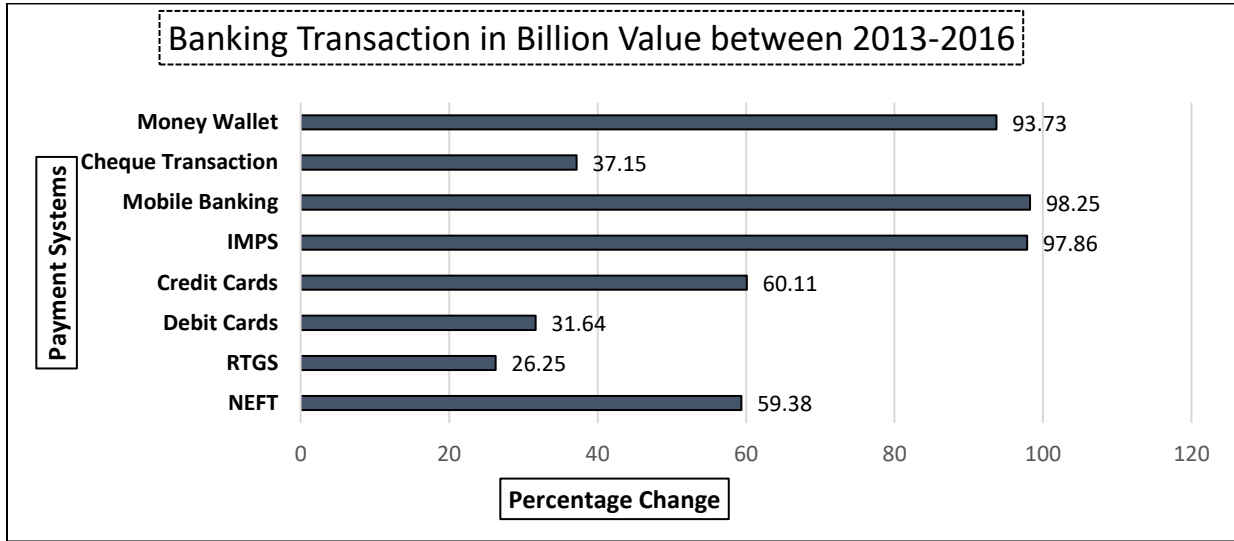


Fig. 1: Chart showing banking transactions between 2013-2016

IMMEDIATE GROWTH IN THE PAYMENT SYSTEM AFTER DEMONETIZATION

Table 2 represents percentage change in payment or financial transaction procedure in values of billions soon after the announcement of demonetization step over a span of just one month. There has been sudden change in transactions by mobile banking and money wallets. mobile banking transactions increased by 90.75 percent and usage of money wallets by 55.62 percent in just one month, as may private companies came forward with relaxations in the banking regulations. ATM and Debit card usage saw a dip of negative figures at 37.62 and 4.51 percent, respectively as there was shortage or no cash at the ATMs. NEFT, IMPS, Cheque transactions observed a change of 23.65, 24.79, 20.44 percent, respectively. Comparing Table 2 with Table 1, what took four years to change was just changed in just a span of one month.

Table 2. Immediate change in the payment system after demonetization.

Payment System	November 2016	December 2016	Change (in %)
NEFT	8807.88	11537.63	23.65
RTGS	101894.49	110980.33	8.18
ATM (Usage)	1.39	1.01	-37.62
POS (Usage)	262.93	298.88	12.02
Debit Cards	1569.14	1501.4	-4.51
Credit Cards	264.32	299.89	11.86
IMPS	324.81	431.92	24.79
Mobile Banking	137.43	1485.83	90.75
Cheque Transaction	5419.22	6811.91	20.44
Money Wallet	33.05	74.48	55.62

Source: Reserve Bank of India Bulletin, Payment System Indicators.

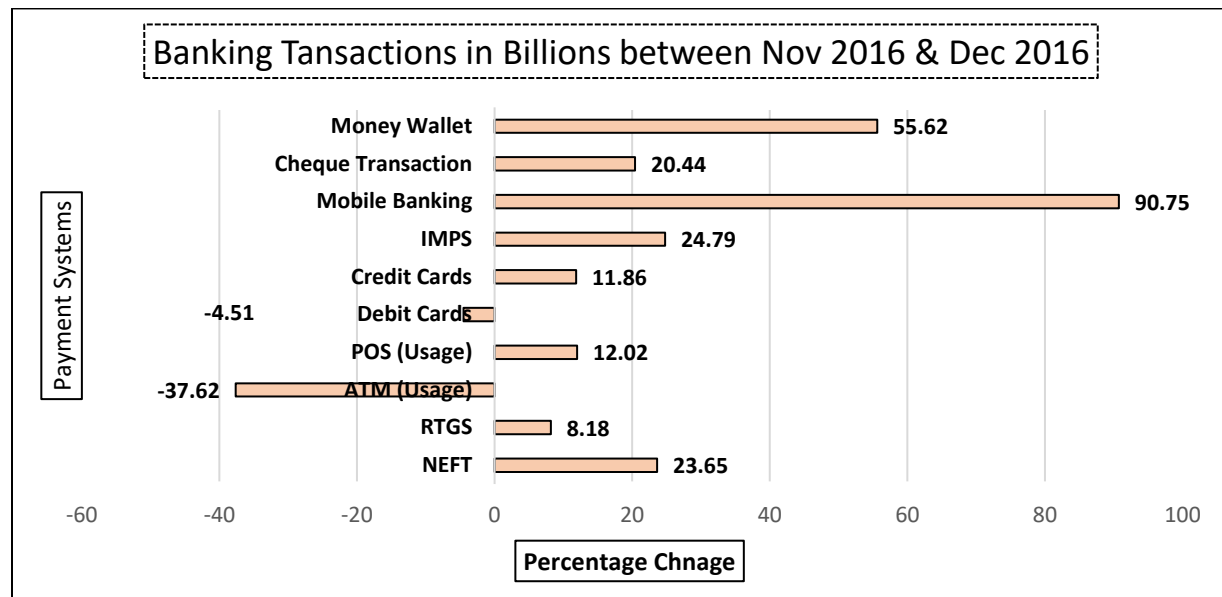


Fig. 2: Chart showing banking transactions between November 2016 and December 2016

CONCLUSION

The cashless transaction system is reaching towards its aim as the day passes. The cashless system is not only requirement for today's society but for the bright future of the economy. Today the world is going digital then why should we be behind in this process; we must strive hard to achieve this aim. It is process wherein which there are many obstacles but to surpass them is in our hand. Demonetization has worked as the link between digitalization and cashless economy, and has done its best in its way, but demonetization is a temporary phenomenon which served its way towards reaching cashless economy. Making Electronic payment infrastructure completely safe and secure so as to develop faith among population, creating a culture of savings rural-urban population and improvement in the basic digital infrastructure can serve as a base for cashless digital economy.

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