

# Demonetization – Metamorphosis for Cashless India

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## 1. Introduction

A thought process has been started for Cashless India on 15<sup>th</sup> Aug. 2014 when Prime Minister announced opening of Jan-dhan accounts on affordable cost for poor and unbanked areas under Financial inclusion. Under the same process, lastly on 8<sup>th</sup> Nov. at 8.00 p.m, he announced that i.e. from 9<sup>th</sup> Nov. 2016, old notes of denomination of Rs.500/- and Rs.1000/- will not be in use except some life saving services for time being. Further, so many additions and modifications have been made in the above process. Perhaps the main thought behind demonetization was, first, to control the black money in the economy and anti money laundering which has been used extensively by terrorists. Second to increase E-transactions in the country. Though, result of the above will come in due course of time but it is sure that all developed countries are moving towards cashless transactions. No doubt control of currency needs a huge expenses like printing, preserving, security etc. etc.

## 2. What is Demonetization?

Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary, whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit.

## 3. Demonetization in India

This is not the first time this has happened in India. Earlier, Rs.1, 000 and Rs.10, 000/- banknotes which were in circulation, were demonetized in January 1946, primarily to curb unaccounted money. The higher denomination banknotes in Rs.1,000/- , Rs.5,000/- and Rs.10,000/- were reintroduced in the year 1954 and these banknotes were again demonetized in January 1978. So that makes in the last time demonetization was done in India, almost 36 years ago.

In our country there are so many unorganized sectors, which are mostly live in the cash economy. India's 263 million farmers got shocked from this news. But Modi's drive to purge 'black cash' from the economy has stroke wiped out 86 percent of the money in circulation. Though the breakdown in the cash economy is causing major disruptions to the supply of produce to India's cities with payment alternatives such as plastic cards or digital wallet apps on Smartphone's yet to gain widespread acceptance. Still, following demonetization on November, 8, 2016, online monetary transactions have gone up by 250% compared to what the month was witnesses in recent years. This shows that there is scope for e-banking in our country. After cash crunch following the banning of Rs.500/- & 1000 notes, (85% of the cash in the system) people have switched to online payment platforms such as e-wallets, other app-based

transactions and net banking. Card swapping has also increased with the surge in first time users creating bottlenecks initially. Now, government is going to notify a panel to rill out cash less economy. Some of the Chief-Ministers are primarily agreed to it and they may declare their state cashless in forthcoming year, after looking the present position after demonetization in their states.

## 4. Current Scenario

We can simply visualize that how cash crunch is boosting the cashless economy as due to ban on Rs.500 and Rs.1,000/- notes has led people to turn to cashless options such as debit, credit cards, IMPS, PAYTM, and mobile wallets, leading to as much as three times jump in usage :

Increase of card users:

Restaurants	210%
Electronics	193%
Supermarkets	186%
Entertainment	155%

Further 67% jump is noticed in number of transactions using immediate payment service to 2 million. 3 times jump in Rupay transactions on point of sale to 10 lakh a day, three times the norms. 133% growth in card transactions across India in the second week of demonetization. 7 million transactions Paytm has been witnessing daily with transactions worth Rs.120 crores and 15.00 lakh people are starting usage of cards ( majority debit cards only). Debit cards transactions have doubled since demonetization. Transactions rose in the second week over the first week of note ban.

India's cash transaction value as percentage of total transactions is pretty high at 68% in comparison to other developed countries as it is 20% in US, 14% in USA, 11% in UK and 8% in France.

## 5. How to increase Cashless transactions

This is starting journey, the moment when it will gear up with the positive attitude in the minds of public, the above cashless transactions can further increased with huge numbers. No doubt there may be some problems at initial stage to all but with the cooperation from all sides, the same will be minimized. Now, question is how to increase cashless transactions in an economy like India where 23% people are below poverty line, literacy rate is nearly 46% and so many regional languages are being used. Farmers have important role in the economy and most of them are illiterate. Further, their most of the business is run through cash only.

In the present business transactions, following options are available in the market:

- 1) Banking Channel – both cash and cashless transactions can be done
- 2) Other Delivery Channels:
  - a) ATM
  - b) Internet Banking
  - c) Debit-credit Cards
  - d) Mobile Banking
  - e) Various Wallet
  - f) Various transactions Apps like PAYTM, NPCI etc.
  - g) Though Banking Correspondence
  - h) Pos machines

Since ultimate transactions are being done through banks only, hence, banks can play a vital role in the cash less economy of every country.

## 6. Bridging the Gap

Now the government has implemented JAM ( Jan Dhan , Adhar, Mobile) strategy to reach out to the unbanked population. According to the government 2356.8 million Jan Dhan accounts have been opened till last week .This is why government is trying to use the mobile and Aadhar combination. A round table discussions have taken place within finance ministry and, NITI Ayog and other ministries where possibilities of using mobile wallets and other digital payment solutions have been discussed. With most of these accounts coming with Rupay Cards the total number of debit cards in the country has crossed 636 million. There are about 700 million card holders in the country today but 90 percent of debit cards are only used to withdraw money from ATMs. Hence a need is to educate them through various channels to do other transactions through ATM. Further ATM cards grew 64 percent between Oct. 2013 to Oct. 2015 but the number of PoS machines rose by 28%. Hence, way ahead is needed in this line also especially in infrastructure is to be concentrated in Semi-urban and rural areas.

## 7. Scope Further

Total 371 million mobile internet user base in India is the highest in the world and is growing fast, can gear up this mission very speedy. Applicants and prepaid instruments such as wallets have been actively targeting this segment. The National Payments Corporation of India (NPCI) has built the Unified Payment Interface (UPI) which has now become operational with seamless network. In the days to come UPI is going to become a leading payment interface looking to its simple operational functions etc. NPCI has also built capabilities that allow users of feature phones to access their bank accounts through the unstructured supplementary service data (USSD) technology. This will considerably expand the availability of banking services to feature phone users, who are still in the hundreds of millions. For the section of the population that does not have a mobile phone, Aadhar –enabled payment systems, which use biometrics, come into play. This will ultimately move towards cash less transaction. Banks have also taken steps to improve the infrastructure for non-cash payments. Banks have waived installation charges for PoS terminals. They are also installing micro ATMs, which use Aadhar based identification systems

## 8. Benefits of Cash less transactions

It is very positive move as, in the longer term, it will formalize the economy further and change deep-rooted behavior.

- 1) **Cost effective to Banks:** Normally, if a bank transactions is done manually, it costs nearly Rs.40 to 45 and the same is done through internet it costs 7 to 8 . Simultaneously, it same transactions is done through either U Mobile or ATM it hardly costs Rs. 12 to 14 and Rs.3.to 4 respectively.
- 2) **Less time consumed:** Definitely the level of customer service will go very high and this will help in minimizing customer complaint. Presently banking are required good number of staff to attend and redress the complaints at different stages.
- 3) **3. Safe and Secure:** Both it is safer for bank and customer as well, it keeps high degree of secrecy.
- 4) **Up-gradation of technology:** No doubt the focus should shift to encourage cashless transactions with the framework of using different technology available in the present market. Banking are increasing their ATMs, PoS machines, Banking Correspondence and E- Lobby which is ultimately upgrade the technology..
- 5) **Control of Black Money and check for Anti money laundry** – Even transactions can be done through e banking but same can be traced while it is very difficult to trace the transactions in cash. There are certain check also in depositing and withdrawing money through bank accounts. Hence, it will definitely control over black money and money laundering in the days to come.

## 9. Conclusion

The economy would establish in the March quarter but the heavy impact of demonetization means growth can accelerate only in the second quarter of the next financial year. There may be risk that gross domestic product growth could slow to 6.5 per cent in the fourth quarter of 2016 against our current estimate of 7.3 per cent and to 7.5 percent in the first quarter of 2017 form 7.9 per cent.

Since cashless transaction will lead to e –transactions. There has been a drastic improvement in electronic transactions which may boost cyber crime, so we make people aware of ways to keep credit, debit cards safe and to train them to teach the measures to keep our transactions hassle free. We need a specially trained cyber police, forensic labs with state of the art evidence gathering tools, public prosecutors who understand technology and cyber courts to punish cyber criminals.

Hope India will be in line of developed countries in the days to come.

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