

## Demonetization: One Step of Digitalization for India

*Dr. Atish Uttamrao Rathod*

*Assistant Professor, Department of Commerce, Netaji Subhashchandra Bose College, Nanded (MS)*

### **Abstract:**

The main aim of this research paper is to understand, need, future and implementation about Demonetization to Digitalization. Now in the present age of Indian economy its very important to go for digitalization through cashless economy, but the current situation is that there are lot of and number of citizens of India don't have bank account and no other information about cash transaction because most of the peoples of India not using bank for cash transaction and they don't have knowledge about cashless transactions. Firstly if we want cashless transaction or economy or every transaction without cash we must have to provide knowledge about plastic money, e-payments and security to citizens. This paper consists about digitalization of India and Indian economy through demonetization and cashless with digitalization.

**Keywords:** Demonetization: Concept, History, Cashless Economy, Need, Digitalization.

### **Introduction:**

On 8th November 2016, of evening the "Narendra Modi" Prime Minister of India announced one of the boldest moves in the history of India's socio-economic scene – demonetization of old Rs. 500 notes and Rs. 1000. Soon after, new notes of Rs. 500 and Rs. 2000 notes were introduced into the economy. India continues to be driven by the use of cash; less than 5% of all payments happen electronically however the finance minister, 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 has also recently 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 or economy in the medium and long term. A day after Prime Minister Narendra Modi announced that to curb black money in circulation Rs 500 and Rs 1,000 notes would no longer be recognised as legal tender, finance minister Arun Jaitley added a new gloss to the decision. He announced that this currency swap would "not merely nudge the economy in the direction of cashless economy but [give it] a significant push in that

direction." Economic affairs secretary Shaktikanta Das echoed this in an interview, explaining that this move was part of a larger agenda to move India into a digital economy. These calls reached a crescendo in Modi's monthly radio address, where he asked citizens to take a pledge to be part of a cashless society. A cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal. India uses too much cash for transactions. The ratio of cash to gross domestic product is one of the highest in the world—12.42% in 2014, compared with 9.47% in China or 4% in Brazil. Less than 5% of all payments happen electronically. The number of currency notes in circulation is also far higher than in other large economies. India had 76.47 billion currency notes in circulation in 2012-13 compared with 34.5 billion in the US. Some studies show that cash dominates even in malls, which are visited by people who are likely to have credit cards, so it is no surprise that cash dominates in other markets as well.

### **Research Methodology:**

The present study mostly depends upon secondary sources of data, which is

collected by researchers from various books, various websites, research journals, news papers and proceedings of seminar on Digital Monetization of Indian Economy.

#### **Objectives of the Study:**

The following objectives have been made for current study.

1. To Understand the Concept of Cash Less Economy in India.
2. To Know the History of Demonetization in India.
3. To Study the Need of Cashless Economy in India.
4. To take review of Cashless Payment Options in India.
5. To suggest some points for Sound Understanding about Digital/ Cash Less Transactions.

#### **Concept of Cashless Economy in India:**

In a cashless economy most of the transaction will be done by digital means like e banking, debit and credit cards, POS (point of sales) machines, digital wallets etc. In simpler words no liquid money or paper currency will be used by the people in a given country. In a cashless economy the third party will be in possession of your money. We will allow you to transact that money whenever it is needed. If it is not needed then the third party can use that money. Cashless Economy is when the flow of cash within an economy is non-existent and all transactions have to be through electronic channels such as direct debit, credit and debit cards, electronic clearing, and payment systems such as Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS) in India. As of now, Cashless Economy has only academic importance. The Indian Economy continues to be driven by the use of cash; less than 5% of all payments happen electronically. In India, the ratio of cash to gross domestic product is 12.42% in GDP, which is one of the highest in the world. It was 9.47% in China or 4% in Brazil. Further, the number of currency notes

in circulation is also far higher than in other large economies; India had 76.47 billion currency notes in circulation in 2012-13 compared with 34.5 billion in the US. The expansion of telecom and smart phones would provide a digital shift to the economy in near future. The private sector the driver of this change Government is also mulling to provide incentives for electronic payments for example waiver of tax when electronic settlements are used. The private sector has to come forward to drive the change. Apart from this government should also give incentives for electronic transactions.

#### **History of Demonetization in India:**

Although the history of demonetization in India dates back to the time when various rulers ruled this country, the freshest and most significant instances of demonetization in India are:

1. On 12th January 1946, Rs. 500, Rs. 1,000 and Rs. 10,000 notes were declared invalid as legal tender.
2. New notes of Rs. 1000, Rs. 5000 and Rs. 10,000 came into economy in 1954.
3. On 16th January 1978, the Morarji Desai led-Janata Party demonetized banknotes of Rs. 1000, 5000 and 10000. Note that, the finance minister at that time was H.M. Patel.
4. RBI introduced a new banknote of Rs. 500 into the economy in 1987 to contain inflation.
5. On 8th November 2016, the old banknotes of Rs. 500 and Rs. 1000 were barred from being legal tender and new notes of Rs. 2000 were soon introduced.

#### **Need of Cashless Economy in India:**

The main advantage of a cashless society is that a record of all economic transactions through electronic means makes it almost impossible to sustain black market or underground economies that often prove damaging to national economies, according to Infowars.com. Because it is also much more risky to conduct criminal transactions or avoid the proper payment of due taxes in a cashless society, such violations are likely to be greatly

reduced. A robust payments mechanism to settle a digital transaction is also needed, though the National Electronic Funds Transfer and Real Time Gross Settlement services. The Indian central bank will also have to shed some of its conservatism, part of which is because it has often seen itself as the protector of banking interests rather than overall financial development. The ease of conducting financial transactions is probably the biggest motivator to go digital. You will no longer need to carry wads of cash, plastic cards, or even queue up for ATM withdrawals. It's also a safer and easier spending option when you are travelling. The following points are required to Cashless Economy in India.

1. To eliminate corruptions on India.
2. To destroy completely black money from Indian financial market.
3. To stop the dangerous problem of fake note currencies.
4. To reduce expenses of currency note printing, save papers and distribution.
5. To stop terrorism attacks in India.
6. To stop all money transactions related to illegal mode.
7. Reduced instances of tax avoidance because it is financial institutions based economy where transaction trails are left.
8. It will curb generation of black money
9. Will reduce real estate prices because of curbs on black money as most of black money is invested in Real estate prices which inflates the prices of Real estate markets

#### **Cashless Payment Options in India:**

Going cashless is trending in India nowadays. Soon after government's demonetization move, people started adapting to modern ways of cashless payment options. There are many cashless payment options available in India. But in this post I will share with you the best 5 cashless payment options that you can use to transact cashless India. If you are new to cashless transactions, don't worry. I am here to help you out. Going

cashless is awesome. It saves time & the best parts of cashless payments are those discounts and cash back. To promote cashless economy, many cashless transaction providers have started giving out 100% cash back on cashless transactions. With limited cash in hand and an indefinite crunch in sight, most people are rushing to cashless transactions. "Digital transactions bring in better transparency, scalability and accountability. The new move will compel more merchants to accept digital money.

#### **Mobile Wallet:**

This is basically a virtual wallet available on your mobile phone. You can store cash on the mobile to make online or offline payments. Various service providers offer these wallets via mobile apps, which you need to download on the phone. You can transfer the money into these wallets online using credit/debit card or Net banking. This means that every time you pay a bill or buy online via the wallet, you won't have to furnish your card details. It's become very famous nowadays. After demonetization, use of e wallets has been implemented at a very large-scale. You might have seen those 'chai walas' and other road side vendors accepting Paytm. That is what exactly e wallets are all about. Paytm is an e wallet and there are many others available.

#### **Unified Payments Interface(UPI):**

UPI is a mobile payment system which allows you to do various financial transactions on your Smartphone. UPI allows you to send or receive money using virtual payment address without entering bank information. Merchants can enroll with banks to accept payments using UPI. Like in the case of a POS machine, the merchant would require a current account with a bank to accept UPI payments. The examples of few UPI Apps are SBI Pay, ICICI Pocket, Axis Pay UPI App, Union Bank UPI App, PNB UPI, PhonePe, TranZapp etc. To pay using this system called **Unified Payments Interface**, you need two important things: Smartphone and a Bank Account.

### **Plastic Money:**

Means Debit Cards and Credit Cards that are used at ATM's for cash withdrawal and POS machines while shopping. Having a debit or credit cards make you burden free from carrying cash. This includes credit, debit and prepaid cards. The latter can be issued by banks or nonbanks and can be physical or virtual. These can be bought and recharged online via Net banking and can be used to make online or point-of-sale purchases, even given as gift cards.

### **Net banking:**

This does not involve any wallet and is simply a method of online transfer of funds from your bank account to another bank account, credit card, or a third party. You can do it through a computer or mobile phone. Log in to your bank account on the Net and transfer money via national electronic funds transfer (NEFT), real-time gross settlement (RTGS) or immediate payment service (IMPS), all of which come at a nominal cost ranging from Rs 5-55.

### **Aadhaar Enabled Payment System:**

Aadhaar Enabled Payment System (AEPS) is one of the best cashless payment methods. AEPS is like Micro ATM it uses smartphone and a finger-print scanner for the transaction. In order to use this facility, it is mandatory to link your Aadhaar card to your bank account. You can use AEPS in order to perform transaction like Aadhaar to Aadhaar fund transfer, Cash withdrawal, Cash deposit etc

### **Cheque:**

The cheque is one of the oldest methods of cashless payment. It is a known method to everyone. In this method, you issue a cheque for the specific amount to someone else. The cheque gets deposited in the respective bank. The bank processes a payment through a clearing house. The entire transaction done through cheque gets recorded and there is a proof of payment. However, there are instances where cheque payments get dishonored due to signature mismatch or

insufficient fund. In order to avoid such issue, you can use other cashless payment options.

### **Demand Draft:**

Demand draft is another rudimentary way of cashless transaction. It is a safest option to receive payment from anyone. Demand draft (DD) never gets defaulted as it is signed by the banker. The disadvantage of DD and cheque is you need to visit a bank in order to deposit cheque and demand draft. The clearance of cheque or DD takes additional time.

### **Online Transfer- NEFT or RTGS:**

The third simplest method for the cashless transaction is online transfer using NEFT or RTGS. In order to do online money transfer, you need internet banking facility. Online transfer using NEFT or RTGS is comparatively faster than cheque or DD. Online transfer can be done from anywhere using internet facility.

### **E-Wallets:**

E-wallet is next cashless payment option. E-wallet can be used to purchase products starting from grocery to airline tickets. In order to use E-wallets customer and merchant, both require a Smartphone with active internet connection.

### **Gift Card:**

The next cashless payment method is a gift card. Gift Card is a readymade card and can be purchased from a merchant or from the bank. The gift card is loaded with a fix cash amount you can purchase any item from the specific vendor by using a gift card.

### **Unstructured Supplementary Service Data:**

We can use USSD cashless option if you don't have a Smartphone or internet connection. Unstructured Supplementary Service Data is mobile banking service. From any mobile phone, you can dial \*99# and use this service. You can do all these things which are available to a person with Smartphone and internet connection. Almost all banks including SBI, ICICI, BOB, Axis Bank and PNB support USSD payment option.

**Suggestions:**

1. Firstly we need to educate to all peoples of India about cash less transaction
2. To open Digital Transaction Centre at Taluka or District places for digital payment literacy.
3. To encourage the people to make their all transaction through Cheque and Demand Draft.
4. To make all the payments by using Debit and Credit Cards.
5. To start every transaction through Net Banking, Mobile Banking and Mobile Wallets for saving trees and time.
6. Every Banks either Nationalized or Co-Operative Banks need to start Cash Less Transaction Schemes for their Customers.

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