

## DEMONETIZATION: CHALLENGES AND OPPORTUNITIES

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Shivani Kampani \*  
Dr. Manish Vadera \*\*

### ABSTRACT

*The government of India took the step of demonetization of 500 and 1000 banknotes on 8<sup>th</sup> November 2016. This bold decision by Prime Minister Narendra Modi effected 1.25 billion people of country. In the first four days after the announcement about 3 trillion Rupees in the form of old 500 and 1000 notes had been deposited in the banking system and about 500 billion Rupees had been dispensed via withdrawals from bank accounts, ATM's as well as exchange over the bank counters. This step was taken by the government to solve the problem of black money and fake currency as recent estimates show that ¼ of India's GDP is the shadow economy of India but a step towards demonetization is also a way to promote cashless transactions among citizens which is a good step for the country. Cashless economy means where the transactions are done electronically through the system like the credit card, debit card, net banking etc. Cashless economy is beneficial for a country like India as it helps to minimize terrorism, corruption, black money. Cashless mode of transactions has many benefits but the question arises that whether India is ready for it and would it be beneficial for the government to turn into a cashless economy by 2020. In this paper, we will analyze the benefits and challenges of a cashless economy and the steps taken by the government to solve these challenges.*

**KEYWORDS:** GDP, Demonetization, Cashless, Black Money.

### Introduction

From 8<sup>th</sup> of November after the announcement of demonetization of 1000 and 500 notes, there was a huge pressure and confusion among everyone on how to do the financial transaction and the answer to it was going cashless. A Cashless economy is when the flow of cash within the economy is negligible and all the financial transactions are through electronic media. We can shop, pay bills, avail loans, and manage our finances from any location with internet connectivity. So after demonetization when the country is having a cash crunch because most of the transaction were happening in 500 and 1000 notes which was having a big portion (about 86%) of our cash economy. Government has started making efforts to achieve the maximum share of cashless economy in our country because this is the time to tap on it and achieve the maximum benefit of being a cashless economy and if we analyze the steps which government has taken during demonetization we will find that this is not something which government has done it in single day. A lot of planning has been done because the government started everything with financial inclusion, by launching Jan Dhan Yojana and also promoting mobile banking. The government is working on the various level to reduce the dependence on cash. Prime Minister Narendra Modi has also launched two schemes called Lucky Grahak Yojana and Digi Dhan Vyapar Yojana for customers and merchants. This scheme especially focuses on bringing the poor, lower middle class and small businesses into digital payment fold. Reducing the economy's dependency on cash and making the economy more deviated towards the electronic medium would result in the betterment of the country. Every doubtful transaction that is not recorded will come into the notice and this will lead India to one of the fastest growing economies of the world.

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\* Research Scholar, Department of Commerce, School of Business & Commerce, Manipal University Jaipur, Rajasthan, India.

\*\* Assistant Professor, Department of Business Administration, Jai Narain Vyas University, Jodhpur, Rajasthan, India.

The main steps of moving to a cashless economy have somehow come after demonetization and was aimed to extract liquidity from the system and to reduce the black money from the economy. The reduction in the usage of cash due to demonetization has encouraged digital and e-transactions. Prime Minister Mr. Narendra Modi has admitted the fact on his monthly radio program "Mann Ki Baat" that making the move to cashless economy is a difficult task and hence has advised the public to move to less-cash society. There was a report by Boston Consulting Group(BCG) and that report revealed that last year in India 75% of transactions were cash based whereas in developed countries like US, Japan, France, Germany etc. it was around 20-25%. The success of a cashless economy will depend on an efficient and modern payment system for driving growth and development. In India, the ratio of cash to GDP is 12.42%. This is one of the highest in the world. In China, it was 9.47% and 4% in Brazil. The number of currency notes in circulation is also higher than other economies. India has 76.47 billion currency notes in circulation in 2012-13 compared with 34.5 billion in the US.

This is not something new which India is doing. There are certain facts about other countries like:

- Sweden has only 3% transactions in cash
  - Many banks in Norway don't give cash to the users
  - In Denmark 1/3 of the population do mobile banking
  - In Belgium, 93% of the population are doing cashless transactions
- So, these countries are already way ahead in cashless economy.

#### History of Demonetization

- 1000 and higher demonetization were first demonetized in January 1946 and again in 1978
- The rupee is named after a silver coin rupiya first issued by Sultan Sher Shah Suri in the 16<sup>th</sup> century and later continued by Mughal Empire
- The highest denomination notes ever printed by Reserve Bank of India was Rs. 10,000 note in 1938 and again in 1954. But these notes were demonetized in January 1946 and again in January 1978 according to RBI data
- Rs. 1,000 and 10,000 bank notes were in circulation prior to January 1946. Higher denomination banknotes of Rs. 1,000, Rs. 5,000 and Rs. 10,000 were reintroduced in 1954 and all of them were demonetized in January 1978
- In 2010 a new symbol was officially adopted. It was derived from the combination of the Devanagari Consonant (ra) and the Latin capital "R" without its vertical bar. The first series of coin with the new rupee symbol started in circulation on 8 July 2011
- Banknotes in Ashoka Pillar watermark series in Rs. 10 denominations were issued between 1967 and 1992; Rs. 20 in 1972 and 1975, Rs. 50 in 1975 and 1981 and Rs. 100 between 1967-1979. The banknotes issued during this period contained the symbols representing science and technology, progress and orientation to Indian art forms. In the year 1980, the legend Satyameva Jayate – truth alone shall prevail was incorporated under the national emblem for the first time.

#### Literature Review

**Ashish Das, and Rakhi Agarwal, (2010)** in their article "Cashless Payment System in India- A Roadmap" states that cash is an expensive mode of payment and a country needs to move away to an electronic payment system as this will reduce currency management cost, will keep a check on tax avoidance/fraud etc., enhance financial inclusion and will unite the corresponding economy with main the stream.

**V. Vimala**, in her studies "The Impact of Credit Cards on HDFC Bank Customers in Shimoga – An Evaluative Study" the role of credit card services and its impact on the development of credit card services was analyzed. The study states that banking products and services are the key activities for the development of banking sector. The study contributes to increasing the quality services and usefulness from the innovations of banking products in India.

**Alvares, Clifford (2009)** in their reports "The problem regarding fake currency in India" mentioned that it's not easy for the country to fight a battle against fake currency and it also stated that counterfeiters have beforehand had restricted printing facilities which make easier to discover fakes.

**Al Laham. (2009)** in his research "Development of Electronic money and its impact on the Central Bank role and monetary policy mentions that there are development and interest in electronic

money schemes. Electronic money is useful for making small value payments and it makes such transactions easier and cheaper.

**Roth, (2010)** in his study of the developed countries of the world observed that people are moving away from paper payment instruments towards electronic mode especially payment cards. The online payment system is enhanced by e-finance, e-brokering and e-exchange.

#### **Objectives of The Study**

- To examine various benefits of demonetized economy
- To study the key fundamental challenges in moving towards a demonetized economy
- To study the steps taken by the government and some solutions to solve the challenges of a demonetized economy

#### **Research Methodology**

In the present study mainly literature survey and secondary data have been used. The required information and secondary data have been collected from websites and various journals and research papers, reports and newspapers articles have been surveyed in making this study.

#### **Benefits of Demonetization**

- **Reduces Tax Evasion:** Black money is the major problem in India. The number of tax evaders in India is phenomenally high. Demonetization will promote cashless transactions and it will help India to get rid of this problem as more online transactions result in less tax evasion/avoidance and this increases our tax to GDP ratio as the government will have access to the enhanced financial trail.
- **Less Expenditure:** The expenditure incurred by RBI in printing notes and currency would be reduced because printing currency involves lot of cash as we have to import inks, introduce security and for introducing single feature on a note requires a period of four to five years so lot of time and money is involved and it will also remove the risk of fake currency which is impacting our economy in a larger way. In the year 2015 RBI spent an amount of 27 billion in issuing and managing currency notes.
- **Reduction in Illegal Activities:** Prostitution, drug trafficking, terrorist financing, money laundering and many such activities will be reduced because all these transactions are mostly done in cash and when the availability of cash is less it will make the operations of such business impossible for the criminals
- **True Democracy:** The majority of election funding in India is made through black money. Cashless transactions would make it difficult for the political parties to spend crores of unaccounted money for their election expenditures. The practice of buying votes and distributing cash would also be eliminated. True democracy would finally be at work.
- **Ease of Doing Transactions:** Citizens will no longer have to carry liquid cash with them. Digital transactions are available even in ordinary mobile phones and even if your debit and credit card is lost it can be blocked as there are so many security features provided.
- **Reduction in Fake Currency:** The Counterfeit currency that is pumped into India to wage an economic war by the enemy countries would be eliminated by a cashless society.
- **More Transparency:** it will make the transactions more transparent as electronic transactions once done will always be there in records and will prevent from theft because if electronic theft is done it will easily get traced.

#### **Challenges for Currency Demonetization**

- **Lack of Awareness:** Many people in rural areas do not have bank accounts. Although the various schemes launched by the government like the Jan Dhan Yojana scheme succeeded in bringing millions of people in the banking system but the process is not complete and many of the accounts are non-functional.
- **Risk of Being Hacked:** When transacting online our personal details or account information and credit card number is exposed over the internet. Hackers can use our identity or can steal information or money for fraudulent activities.
- **Inadequate Infrastructure:** Cyber security measures are not up to the mark which leads to increase in online frauds. There are very less number of ATM's and point of sale terminals which are available is also a major problem.

- **Digital Literacy:** Internet penetration is not up to that level in most parts of the country and so the condition of digital literacy. Making customer educated is very important and this will be a major challenge in areas where literacy rates are very less. According to one article in Hindustan Times merely 26% of India has internet access and there are only 200 million users of digital payment services.
- **Anonymity and Privacy Concerns:** All the transactions and user details are recorded by the payment systems we are using and stored in their database. This leads to lack of anonymity.
- **High Cash Dependency:** Most of the transactions in India are done in cash. The dependency on cash is very high in India and it requires a lot of time to tackle it.

#### Steps Taken by the Government

- Granting license to payment banks.
- Incentives for new POS machines.
- Launching Pradhan Mantri Jan Dhan Yojana which is a major step taken by the government for opening bank accounts for those people who are not under the banking system earlier.
- Launching UPI, RuPay, USSD, e-wallet, Aadhaar Enabled Payment System.
- Withdrawal of the surcharges on cards and digital payments. This is a positive step and will motivate people to use more debit and credit card.
- Launching schemes like Lucky Grahak Yojana and Digi Dhan Vyapar Yojana.

#### Some Suggestions

- **Enhancing Digital Literacy:** This can be done by bringing NGO's to fill the gap of financial literacy. This is particularly important for unorganized sector who are currently outside the scope of banking system
- **Removing Infrastructural Bottlenecks:** Smart phone penetration, banking services, internet connectivity is not adequate so this has to be enhanced further.
- **Bringing More Efficiency in the Model of Banking Correspondence:** Banking correspondence are currently underpaid so we have to bring in more funds so that they can be motivated because banking correspondence are currently the backbone of banking services which are being provided in rural areas
- **White Label ATM's:** ATMs set up, owned and operated by non-banks are called White Label ATMs. Non-bank ATM operators are authorized under Payment & Settlement Systems Act, 2007 by the Reserve Bank of India.

#### Conclusion

Becoming cashless is very good for the economy as it will boost up the investments, job growth, tax collection etc. The future of the cashless India looks pretty promising as the response of the people towards this move of the government and the support towards it is a clear indication that the government move is likely to succeed. The transparency in the economy will increase through e-commerce transactions. This step will increase the GDP and the credibility of the country and make a rise in investment. Apart from all these benefits, there are certain challenges as well but the challenges are not so grave or major that they cannot be overcome. They can be overcome over a period of time and the government is taking appropriate steps to overcome these challenges.

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