

## **IMPACT OF DEMONETIZATION: CASH TO CASHLESS TRANSACTIONS (A CASE STUDY OF SELECTED CONSUMERS IN RAJASTHAN STATE)**

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### **ABSTRACT**

*The Government has implemented a major change in Economic environment by Demonetizing high value of currency notes ₹ 500 and ₹ 1000 denomination on 8<sup>th</sup> November, 2016. Demonetization is a sudden stop in terms of currency availability; it created a situation of currency jams on consumption, investment, production, employment etc. This study examined the impact of Demonetization on the growth of Indian Economy and also made an attempt in evaluating the awareness and usage of cashless transaction by consumers after Demonetization. A study was conducted in Rajasthan State and the data was collected with the help of Questionnaire and was further analyzed using SPSS and percentage method. A Cashless economy is an economy in which all types of transaction carried through digital means. It includes E- Banking, Mobile banking, Debit and Credit card, Digital wallet etc.*

**KEYWORDS:** *Cashless Economy, Demonetization, Digital Payment, SPSS, E- Banking.*

### **Introduction**

Though, demonetization is a optimistic move by the government on one side; on the others side there is welfare losses to the poor sections of the society who depends on daily income for their livelihood and those doesn't have the digital transaction culture. Cashless economy is a situation in which the flow of cash within an economy is non-existent and all transactions are done through electronic media channels such as direct debit, credit and debit cards, electronic clearing and payment systems such as National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS). Going cashless transactions not only eases one's life but also helps authenticate and formalize the transactions that are done. This helps to curb corruption and the flow of black money which results in an increase of economic growth. The expenditure incurred in printing and transportation of currency notes is reduced.

### **Review of Literature**

**Ashish Das and Rakhi Agarwal, (2017)**, studied the cashless payment system in India. They suggested that the cash payment is an expensive proposition to the government and so the nation must step towards the cashless payment system which reduced the track transactions, currency management cost, eliminates tax avoidance, fraud etc. Moreover, it widens and encourages financial inclusion and integrate the parallel economy to the main stream.

**Balaji and Balaji, (2018)**, in their study 'A Study on Demonetization and Its Impact on Cashless Transactions'. The point of study was to examine the effect of demonetization on money less exchanges. The development of the cashless exchange framework is achieving new statures. Individuals tend to move to cashless exchanges. It is all in all correct to state that the cashless framework isn't just a necessity yet additionally a requirement for the general public. Be that as it may, then again, the danger of digital wrongdoing is particularly higher as all the cashless exchanges are done over web. So appropriate and finish mindfulness must be made to the general population to keep their charge and Master cards safe and to utilize the web managing an account and the computerized wallet in a most secure manner. Keeping in mind the end goal to rebuff the digital lawbreakers, the appropriately organized digital police constrain with top of the line legal labs and innovation must be made.

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### **Objective of the Study**

- To know the impacts of cashless payment system on society.
- To find out practical solutions and innovative ideas to accomplish the vision of a demonetization and cashless economy.
- To study impact of Demonetization on the growth of Indian Economy
- To evaluate the awareness and usage of cashless transaction by consumers after Demonetization
- To suggest the ways for improvement in cashless transaction system for increasing Gross Domestic Product (GDP) in future.

### **Research Methodology**

The study is based on descriptive nature, both primary and secondary source of data were used. The primary source of data collected through self constructed questionnaire. A sample of 100 respondents from Rajasthan State was taken for the study. The collected data was analyzed using Statistical Packages for the Social Sciences (SPSS) and percentage method. The Secondary data was collected from journals, magazines and websites for the study.

### **Hypothesis of the Study**

**H<sub>01</sub>:** It is assumed that there is no impact of demonetization: cash to cashless and no changes in spending pattern before and after demonetization by consumers.

### **Limitations of the Study**

- The study is limited to the Rajasthan State only so, the generalization of conclusion of the study may not be universally applicable.
- Biers of Researcher as well as Respondents are also limitation of this study.
- The statistical techniques have their own limitation. They also apply this study.
- The respondents are not aware about Demonetization: Cashless Transaction and most of the customer's have not replied properly.

### **Relationship between Demonetization and Cashless Transaction**

Is it a way out of cash crunch? If so, it is good for the people and the country's economy. However, as the government takes the path of moving its people towards a cashless economy, there are many challenges that lie ahead. The government has been pushing for a cashless economy to overcome the prevailing cash crunch. NITI Aayog CEO Amitabh Kant recently announced what he called a 'Christmas gift to the nation', a bonanza of cash rewards to promote digital or cashless transactions as the government pitches a cashless economy after demonetization. Under this scheme a total ₹ 340 crore will be given away in prizes for both customers and merchants through lucky draws. The schemes would cover small transactions between ₹ 50 and ₹ 3,000. The objective is to encourage all sections of society to make digital payments. It is estimated that only five per cent Indians make digital payments, while the rest use cash. However, the unavailability of cash has led an increasing number of people towards digital payments or cashless mode.

In a country like India where a majority of people do business in cash, it looks difficult if not impossible to achieve the dream of cashless economy. A World Bank report says that bank account penetration in India increased from 35 per cent to 53 per cent between 2011 and 2014. But the country also suffers from high dormancy rates, meaning there is no or less activity in these accounts. The Government has implemented a major change in Economic environment by Demonetizing high value of currency notes ₹ 500 and ₹ 1000 denomination on 8<sup>th</sup> November, 2016. Demonetization is a sudden stop in terms of currency availability; it created a situation of currency jams on consumption, investment, production, employment etc. Now days the World Bank report further says that the dormancy rate in India is quite high at 43 per cent. Only 39 per cent of all account holders in India own a debit or ATM card. In India, a mere 15 per cent of adults reported using an account to make or receive payments.

Yes, there are challenges to implement and transform into a digital economy in a diverse country like India. The government will have to use all its machinery to provide support and technology, so that the digital platform can both be functional and safe throughout India uninterrupted. The RBI figures for February, 2018 show that banks had issued around 79.72 crore debit cards and 5.59 crore credit cards to customers after deducting withdrawn or cancelled cards. We can easily assume that these

cards have primarily been issued in urban areas. Millions of people still don't have a bank account, access to PoS sale points, internet or infrastructure to understand and use online payment methods etc. So, we need a large scale penetration of digital services and PoS terminals to facilitate digital transactions in rural areas.

### **Impact of Demonetization on Indian Economy**

The impact of banning the currency notes was felt by every Indian Citizen. Now Let's analyze the political, economic and social impact of the demonetization in detail:

- **Political Impact:** The political impact of demonetization was felt by the whole country with majority of the educated people offering support to the demonetization. The speeches against black money made by Prime Minister Mr. Narendra Modi are attracting huge crowds turning into vote banks for BJP. There is a growing support for BJP from the educated people and especially the youth for the bold step taken to curb black money. The opposition parties however oppose the demonetization drive. The continuous adjournment of both the houses indicates this scenario. Dr. Manmohan Singh, ex- prime minister of India has said this move as unlawful against democracy. His statement came out in the Rajya Sabha in the presence of Mr. Narendra Modi. Opposition parties strongly oppose the demonetization implementation process.
- **Social Impact:** The banning of ₹ 500 and ₹ 1000 notes was released suddenly and the worst affected was the common man. The social impact was drastic with marriages facing severe issues with cash transactions. People conducting marriages must produce the marriage invitation to withdraw ₹2,50,000 and above. This has caused great difficulty among the public.
- The impact on the health care sector was huge with hospitals refusing to accept the old currency. The common man faced severe issues transacting in the hospitals with old currencies and several cases of death had been registered for not attending the patients due to demonetization Salaried employees faced the issue on the opening day of the month with their salaries credited in the bank account but they were able to withdraw only ₹2,000 from the ATM machines. Many salaried people have gone to the bank branch to withdraw their full salary amount with loss of pay.
- **Economic Impact:** Demonetization is viewed as a measure of sterilizing the money. RBI plays the pivotal role in this demonetization drive. All the banking experts welcome this demonetization measure. Considering the banking sector, both public and private sector banks are facing the severe issue of Non-Performing Assets (NPA) or Bad loans to the tune of ₹ 10 lakhs crore are including the stressed assets according to RBI sources.

### **Impact of Demonetization: Cashless Transaction on Indian Economy**

Faceless, Paperless, Cashless is one of professed role of Digital India. India continues to be driven by the use of cash; less than 5% of payments happen electronically, however the finance minister, in the budget speech, spoke about the idea of making India a cashless society, with the aim of mopping black money. Even the RBI has also recently announced a document - **'Payments and Settlement Systems in India: Vision 2018-19'** - with a plan to encourage electronic payments and to make India to move towards a cashless economy in the medium and long term. The following are the advantages of going cashless transaction:

- Saves Money and Time
- Less Cash Decreased Crimes
- Production Costs of Coins and Paper Currency are reduced
- More Spending Helps Improved Economic Growth
- Positive Impact on Society
- Attack on Parallel Economy
- Financial Inclusion- digital economy will help enhance our current banking system
- Increased the Tax Net- transactions can be tracked easily

Most people are switching to digital payments for its sheer convenience 84%, for discounts/ cash back rewards 49%, for easy tracking of spends 54% and due to shortage of currency 34%. As railways are also promoting digital payments through fancy discounts schemes i.e. 5% discount on online payment of retiring rooms.

### Analysis and Interpretation of Data and Information

The data is cross tabulated and chi-square is applied to understand the association between Income of the respondents and

- Perception of the respondents with respect to their level of difficulties faced after demonetization.
- Perception of the respondents with respect of the idea to go cashless.
- Perception of the respondents with respect to the spending pattern shifting from cash to cashless.
- Perception of the respondents with respect to the mode of payments before and after demonetization.

**Table 1: Income vs. Affected by Demonetization**

Income	Very Much	Moderate	Slightly	Total
Up to ₹2,50,000	20 (20.8%)	8 (8.3%)	4 (4.2%)	32 (33.3%)
₹2,50,000 to ₹5,00,000	18 (18.7%)	6 (6.3%)	2 (2.1%)	26 (27.1%)
₹5,00,000 and above	6 (6.3%)	2 (2.1%)	2 (2.1%)	10 (10.5%)
None of the above	16 (16.6%)	8 (8.3%)	4 (4.2%)	28 (29.1%)
<b>Total</b>	<b>60 (62.4%)</b>	<b>24 (25.0%)</b>	<b>12 (12.6%)</b>	<b>96 (100%)</b>

**Chi-square = 0.033**

Source: Computed and Compiled from Primary Data and Information.

It indicates that 60 (62.4%) of the respondents under various Income group are very much affected by Demonetization, while 24 (25.0%) of the respondents are moderately affected and only negligible 12 (12.6%) of the respondents under various income group are slightly affected by Demonetization. From the above Table, it is inferred that the Pearson Chi-Square is 0.033 which is less than 0.05. So that  $H_{01}$  is rejected, hence it is clear that there is an impact of demonetization on consumers. This clearly states that the impact of Demonetization was felt more by poor and common people.

**Table 2: Income vs. Preferences**

Income	Cash Payments	Cashless Payments	Total
Up to ₹2,50,000	10 (10.3%)	22 (23.0%)	32 (33.3%)
₹2,50,000 to ₹5,00,000	2 (2.1%)	24 (25.0%)	26 (27.1%)
₹5,00,000 and above	0 (0%)	10 (10.4%)	10 (10.4%)
None of the above	6 (6.2%)	22 (23.0%)	28 (29.2%)
<b>Total</b>	<b>18 (18.6%)</b>	<b>78 (81.4%)</b>	<b>96 (100%)</b>

**Chi-square = 0.000**

Source: Computed and Compiled from Primary Data and Information.

It indicates that 78 (81.4%) of the respondents under various Income group prefer cashless payments and only negligible 18 (18.6%) of the respondents prefer cash payments. From the above Table, it is inferred that the Pearson Chi-Square is 0.000 which is less than 0.05. So that  $H_{01}$  is rejected, hence it is clear that there is an impact of demonetization and also changes in spending pattern before and after Demonetization.

**Table 3: Income vs. Cash or Cashless**

Income	Yes	No	Can't Say	Total
Up to ₹2,50,000	12 (12.5%)	0 (0%)	8 (8.3%)	20 (20.8%)
₹2,50,000 to ₹5,00,000	16 (16.6%)	2 (2.1%)	4 (4.2%)	22 (22.9%)
₹5,00,000 and above	16 (16.7%)	4 (4.2%)	4 (4.2%)	24 (25.1%)
None of the above	16 (16.6%)	0 (0%)	14 (14.6%)	30 (31.2%)
<b>Total</b>	<b>60 (62.4%)</b>	<b>6 (6.3%)</b>	<b>30 (31.3%)</b>	<b>96 (100%)</b>

**Chi-square = 0.025**

Source: Computed and Compiled from Primary Data and Information.

it indicates that 60 (62.4%) of the respondents under various income group felt that it is a good idea to go cashless, while 30 (31.3%) of the respondents felt that they can't say whether it is a good idea to go cashless and only negligible 6 (6.3%) of the respondents felt that it is not a good idea to go cashless. From the above Table, it is inferred that the Pearson Chi-Square is 0.025 which is less than 0.05. So that  $H_{01}$  is rejected, hence it is clear that there is an impact of demonetization and also changes in spending pattern before and after Demonetization and most of the consumers felt that it is a good idea to go cashless.

**Table 4: Income vs. Spending Pattern**

Income	Very Much- Most of My Transaction are in Cash	Slightly- But I have Started to get a hang of Digital Payment	Not at All- Most of My Transaction are Cashless	Total
Up to ₹2,50,000	8 (8.3%)	18 (18.7%)	2 (2.1%)	28 (29.1%)
₹2,50,000 to ₹5,00,000	10 (10.4%)	12 (12.5%)	4 (4.2%)	26 (27.1%)
₹5,00,000 and above	2 (2.1%)	4 (4.2%)	4 (4.2%)	10 (10.5%)
None of the above	14 (14.6%)	16 (16.6%)	2 (2.1%)	32 (33.3%)
<b>Total</b>	<b>34 (35.4%)</b>	<b>50 (52.0%)</b>	<b>12 (12.6%)</b>	<b>96 (100%)</b>
<b>Chi-square = 0.030</b>				

Source: Computed and Compiled from Primary Data and Information.

It indicates that 50 (52.0%) of the respondents are moving towards digital payments, while 34 (35.4%) of the respondents transaction are in cash, while the remaining 12 (12.6%) already adopted cashless payments. From the above Table, it is inferred that the Pearson Chi-Square is 0.030 which is less than 0.05. So that  $H_{01}$  is rejected, hence it is clear that there is an impact of demonetization and also changes in spending pattern before and after Demonetization.

**Table 5: Income vs. Comfortability**

Income	Very Comfortable	Somewhat Comfortable	Somewhat Uncomfortable	Very Uncomfortable	Total
Up to ₹2,50,000	6 (6.3%)	14 (14.5%)	6 (6.3%)	0 (0%)	26 (27.1%)
₹2,50,000 to ₹5,00,000	14 (14.6%)	10 (10.3%)	4 (4.2%)	6 (6.3%)	34 (35.4%)
₹5,00,000 and above	6 (6.3%)	4 (4.2%)	0 (0%)	0 (0%)	10 (10.5%)
None of the above	4 (4.2%)	14 (14.5%)	8 (8.3%)	0 (0%)	26 (27.0%)
<b>Total</b>	<b>30 (31.4%)</b>	<b>42 (43.5%)</b>	<b>18 (18.8%)</b>	<b>6 (6.3%)</b>	<b>96 (100%)</b>
<b>Chi-square = 0.016</b>					

Source: Computed and Compiled from Primary Data and Information.

It indicates that 42 (43.5%) of the respondents under various income group felt that somewhat comfortable using digital payment, while 30 (31.4%) of the respondent felt that very comfortable using digital payment, 18 (18.8%) of the respondents felt somewhat uncomfortable using digital payment and only few 6 (6.3%) felt very uncomfortable using digital payment. From the above Table, it is inferred that the Pearson Chi-Square is 0.016 which is less than 0.05. So that  $H_{01}$  is rejected, hence it is clear that there is an impact of demonetization and also changes in spending pattern before and after Demonetization and the consumers are very much comfortable using digital payment.

**Table 6: Income vs. Mode of Payment**

Income	Before Demonetization				After Demonetization			
	Daily Commute	Entertainment	Utility Bills	Groceries	Daily Commute	Entertainment	Utility Bills	Groceries
<b>Cash</b>								
Up to ₹2,50,000	29 (30.2%)	24 (25.0%)	22 (22.9%)	25 (26.0%)	24 (25.0%)	7 (7.3%)	11 (11.5%)	20 (20.8%)
₹2,50,000 to ₹5,00,000	22 (22.9%)	14 (14.6%)	11 (11.5%)	18 (18.7%)	22 (22.9%)	9 (9.5%)	10 (10.4%)	11 (11.5%)
₹5,00,000 and above	10 (0.4%)	4 (4.2%)	5 (5.2%)	6 (6.3%)	6 (6.3%)	5 (5.2%)	3 (3.1%)	4 (4.2%)
None of the above	24 (25.0%)	17 (17.7%)	18 (18.8%)	21 (21.9%)	22 (22.9%)	9 (9.3%)	13 (13.6%)	16 (16.6%)
<b>Total (A)</b>	<b>85 (88.5%)</b>	<b>59 (61.5%)</b>	<b>56 (58.4%)</b>	<b>70 (72.9%)</b>	<b>74 (77.1%)</b>	<b>30 (31.3%)</b>	<b>37 (38.6%)</b>	<b>51 (53.1%)</b>
<b>Cashless</b>								
Up to ₹2,50,000	3 (3.1%)	8 (8.3%)	10 (10.4%)	7 (7.3%)	10 (10.3%)	25 (26.0%)	21 (21.9%)	12 (12.5%)
₹2,50,000 to ₹5,00,000	4 (4.2%)	14 (14.6%)	15 (15.6%)	8 (8.3%)	4 (4.2%)	17 (17.7%)	16 (16.6%)	15 (15.6%)
₹5,00,000 and above	2 (2.1%)	6 (6.3%)	5 (5.2%)	4 (4.2%)	4 (4.2%)	7 (7.3%)	6 (6.3%)	6 (6.3%)
None of the above	2 (2.1%)	9 (9.3%)	10 (10.4%)	7 (7.3%)	4 (4.2%)	17 (17.7%)	16 (16.6%)	12 (12.5%)
<b>Total (B)</b>	<b>11 (11.5%)</b>	<b>37 (38.5%)</b>	<b>40 (41.6%)</b>	<b>26 (27.1%)</b>	<b>22 (22.9%)</b>	<b>66 (68.7%)</b>	<b>59 (61.4%)</b>	<b>45 (46.9%)</b>
<b>Grand Total (A+B)</b>	<b>96 (100%)</b>	<b>96 (100%)</b>	<b>96 (100%)</b>	<b>96 (100%)</b>	<b>96 (100%)</b>	<b>96 (100%)</b>	<b>96 (100%)</b>	<b>96 (100%)</b>

Source: Computed and Compiled from Primary Data and Information.

The above table studies about the mode of payment of various expenses by consumers, before and after demonetization using percentage method. While comparing the cash payments before and after demonetization, the percentage has been reduced from 85 (88.5%) to 74 (77.1%) for daily commute, 59 (61.5%) to 30 (31.3%) for entertainment, 56 (58.4%) to 37 (38.6%) for utilities, and 70 (72.9%) to 51 (53.1%) for groceries. While comparing the cashless payments (like debit card, credit card, online banking etc.) before and after demonetization, the percentage has been increased from 11 (11.5%) to 22 (22.9%) for daily commute, 37 (38.5%) to 66 (68.7%) for entertainment, 40 (41.6%) to 59 (61.4%) for utility bills, 26 (27.1%) to 45 (46.9%) for groceries. Thus, we can conclude from the above table that consumers started preferring cashless payments after demonetization.

### **Suggestions**

The cashless transaction activity had a great step to enhance the transparent economic development, empower the financial inclusion and integrates the parallel economy with main stream. In present scenario the country needs to move away from traditional cash based transaction towards a cashless or digital payment system. Customer wants to learn and adopt the cashless transactions. So that they can save an enormous time and they will feel easy in handling cash. Many customer friendly devices have come for making e-payments a pleasant experience. Hence it is essential that the customer keep updating their knowledge from bankers/service providers as to how to operate the same. While using card, the customers should be careful to see that it is swiped only once in their presence, otherwise it may be photocopied and duplicate card may be produced containing your card details, for which they may have to pay. Therefore the following suggestions will help to improve cashless transaction among the consumers.

- The Government of India along with banks should be organize intensive awareness program about the benefits and need of cashless transaction or digital payments to students of colleges, higher educational intuitions.
- The banks should organize camp at village to educate the people about digital payment system.
- The Government of India and Telecom ministry should make necessary step to enhance broadband speed and wide coverage of internet to all areas.
- The government should continue and give some incentive benefits to those who are using regular digital payments because it will motivate not only the regular user but also new user.
- Customers must get confident for using all types of cashless transactions. For that the Government has to take some measures and reduce the illegal activities which are been made while the transaction are been made. When this measure has been made then the number of using cashless transactions will be increased.

### **Conclusion**

The Government has implemented various reforms for sustainable and transparent economic development. The Demonetization and Digital payments are most important among the reforms. The impact of demonetization was felt more in the social sector and the worst affected was also the poor and the common people. The cash less transaction is not only requirements but also emerging need of today for transparent economic development. Another big hurdle for a digital India is network. Mobile internet network is crucial for interiors since PoS works over mobile internet connections. The low literacy rates in rural areas along with lack of internet access or knowhow makes it very difficult for people to adopt the habit of digital transactions. Leave aside individuals or the private sector, the government must first take steps to make its own institutions, such as the Indian Railways, cashless. The cashless transaction system is reaching its growth day by day as soon as the market become globalized and the growth of banking sector more and more the people moves from cash to cashless system. The cashless system is not only requirement but also a need of today society. All the online market basically depends on cashless transaction system. The cashless transition is not only safer than the cash transaction but it is less time consuming and not a trouble of carrying and trouble of wear and tear like paper money. It also helps in record of the all the transaction done. So it is without doubt said that future transaction system is cash less transaction system.

In Rajasthan State cashless can be achieved easily because most of customer will only shift when it's easier, certain and safe to make cashless transactions. Government and banks should adopt strategy of incentivize cashless transactions and discourage cash payments by the way of proper implementation and supervision of restrictions for using cash based transaction then the cashless India

will come to true in future. To achieve the dream of cashless or digital economy, cyber security will be a big concern. Government must put in place tough cyber law and security measures to protect cyber attacks. People must be educated about cyber threats too. The present cash crunch might be inconvenient, but this inconvenience will lead us to a very convenient future of digital economy – provided things fall in place.

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