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Demonetisation: Stepping Towards Cashless Economy

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Abstract:

The Indian government is constantly encouraging the people of India to go cashless and reduce dependence on cash transactions and instead adopt digital payment methods. Demonetization was one of the moves. A Cashless Economy is an economy in which all types of transactions are carried out through digital means. It includes e-banking (Mobile banking or banking through computers), debit and credit cards, card-swipe or point of sales (POS) machines and digital wallets. The paper under study tries to throw light on the current position of Cashless India, impact demonetisation, advantages and disadvantages of cashless transaction economy, steps taken by RBI and Government to encourage cashless transactions,

Keywords: *Demonetisation, Cashless Transaction, E-Banking, Mobile Banking and POS.*

Introduction:

“We want to have one mission and target: Take the nation forward – Digitally and Economically”

- Shri Narendra Modi, Prime Minister of India.

The payments landscape in India is undergoing a transformation: traditionally a cash-based economy, it has seen an increase in card-based and mobile transactions. In spite of advances made in the recent years by the Government to popularize cashless transactions, India continued to be a high-cash-usage economy. On the night of 8th November 2016, the Hon’ble Prime Minister of India, Shri Narendra Modi made an announcement that the Rs 500 and Rs 1000 notes in circulation would cease to be legal tender from midnight onwards. Thus, with one announcement the Prime Minister transformed about 86% of the currency notes in the Indian economy to mere pieces of paper. The prime objectives of the bold move that the NDA government at the centre has taken is to curb the black money, eliminate the circulation of fake currency from the Indian economy, terrorist financing and to move India towards a ‘cashless’ economy.

Significance of the Study:

This paper discusses about the current scenario of cashless transaction economy in India and impact of demonization. It also strives to describe steps taken by RBI and the government for encouraging cashless economy.

Research Methodology of the Study:

This paper is of descriptive nature. The study has been carried out based on the collection of the relevant secondary data. Secondary data collection was based on various sources such as published books, articles published in different journals & newspapers, periodicals, conference paper, working paper and websites etc.

Objectives of the Study:

Following are the objectives this study:

- 1) To understand demonetisation vis-a-vis cashless economy.
- 2) To assess the current position of cashless transaction in India.
- 3) To understand the advantages and disadvantages of cashless transaction economy.
- 4) To study the steps taken by RBI and the government for encouraging cashless economy.

Meaning of Cashless Economy:

Cashless Economy can be defined as a situation in which the flow of cash within an economy is non-existent and all transactions must be through electronic channels such as direct debit, credit cards, 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 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. He will allow you to transact that money whenever it is needed. If it is not needed then the third party can use that money. Third party can be a government or any other public or private sector bank.

Current Position of Cashless India:

The cash centric informal sectors like agriculture, real estate, etc., have been affected by demonetization. However the experts say that it's a short term scenario and this move will give positive long term consequences. To bring the economy on track again, government is promoting

cashless economy because scrapping of cash needs an alternative to cash. In a country where 90% transactions are carried out on cash basis it was a revolutionary move to transform from cash to cashless transactions. As per RBI reports bank branches increased by 5% per year but ATMs, debit cards and card swiping machines have doubled in four years and online transactions have grown 20 times in six years to 2016.

Top cashless countries of the world are as follows:

Countries	Cashless Transactions
Singapore	61%
France	59%
United Kingdom	52%
USA	45%
Australia	35%
Germany	33%
Spain	16%
Brazil	15%
Japan	14%
China	10%
India	2%

Source: Mastercard Advisor's Measuring progress toward a cashless society

We are the fourth-largest user of cash in the world. The rate of cash to GDP is the highest, i.e. 12.42% in India. Cash in circulation to private consumption ratio in India is 20% and Card transactions account for 4% of the personal consumption expenditure. As most of people are illiterate, poor, engaged in small transactions and having less banking habits. At present, India is far behind to other economies with regard to cashless transactions. The ratio of cash to gross domestic product in India is one of the highest in the world-12.42% in 2014 as compared with 9.47% in China or 4% in Brazil. Another report by Boston Consulting Group (BCG) and Google India mentioned that last year around 75% of transactions in India was cash based while it was 20-25% in developed nations such as US, Japan, France, Germany etc.

Demonetisation, Digital Transactions and Cashless Economy:

Demonetization refers to an economic policy where a certain currency unit ceases to be recognized or used as a form of legal tender. The demonetisation was initially seen by some sources as a significant step towards making India a cashless economy. Prime Minister Narendra Modi appealed to Indian population in his radio address in Dec 2016 to go cashless with slogan -

'Less-cash' first, 'cashless society' next. More people began using cards and e-wallets, and the demand for point of sales (POS) or card swipe machines increased. This led to the acceleration of installation of POS machines. According to data of Pine Labs, the demand for its POS machines doubled after the decision. The company stated that the debit card transactions rose by 108% and credit card transactions by 60% on 9 November 2016. Since demonetization Paytm's traffic increased by 435% and its download by 200%. Paytm is India's leading mobile wallet startup – it allows users to make transactions at 850,000 places across 1,200 Indian cities, including mom and pop shops, branded retail outlets, and petrol pumps. Both the Immediate Mobile Payments System (IMPS) and the United Payments Interface (UPI), which support instant payments using mobile phones, have grown substantially since demonetisation, even as cash has returned to the economy. All these data shows a gradual shift towards cashless economy. Demonetization has sped up this transition.

Advantages of Cashless Transaction Economy:

- 1) Cashless transaction is only possible with white money which renders the black economy untenable. Black money is a major problem in India and the fact that less than 5% of all payments in the country are made electronically has not helped matters. The number of tax evaders in India is phenomenally high. Cashless transactions will help India get rid of this perennial problem because in financial institution based economy there are always transaction trails which make it extremely difficult to avoid taxes.
- 2) Real Estate prices would drop considerably because a huge share of black money is invested in this sector which inflates the prices in the real estate market.
- 3) The expenditure incurred by the RBI in printing notes would be considerably reduced. In the year 2015, the RBI spent Rs 27 billion in issuing and managing currency notes.
- 4) Terrorist financing, money laundering and many such activities are carried out only in cash. Cashless transactions would make the operation of such businesses impossible for the criminals. This is one of the major advantages for a crime ridden India.
- 5) Cashless transactions can be easily monitored by the government which will enhance revenue collection and consequently increase the funds to carry out developmental activities.
- 6) The citizens would no longer have to carry liquid cash with them. It would be sufficient to carry mobiles, cards or tablets. Digital transactions are being made available in even

ordinary mobile phones which mean that it is not necessary to have only smartphones for digital transactions.

- 7) The majority of election funding in India is made through black money cutting across the political spectrum. Cashless transactions would make it impossible for the political parties to spend thousands of crores of unaccounted money for their election expenditures. The deplorable practice of buying the votes by distributing cash and alcohol to the people would also be eliminated. True democracy would be finally at work.
- 8) The welfare programs that suffer with the chronic problem of corruption and non-implementation would be greatly benefited. The money would be directly transferred to the beneficiary's account and can also be easily traced by the government. The people would no longer be at the mercy of the corrupt government officials who have exploited the poor for far too long.
- 9) Counterfeit currency that is pumped into India to wage an economic war by the enemy countries would be eliminated by a cashless society.

Disadvantages of Cashless Transaction Economy:

- 1) Many poor people do not have bank accounts. Although the Jan Dhan Scheme launched by the government succeeded in bringing millions into the banking system, the process is not complete and many of the accounts are non-functional. The government has to rectify this problem and bring the entire poor and marginalized section into the banking system.
- 2) The small retailers in India deal only in cash and have not been able to invest in the digital infrastructure.
- 3) The taxes, surcharges and the fees charged on digital transactions need to be made liberal in order to encourage the people to adopt the practice. Otherwise the public would not be willing to move towards a cashless society.
- 4) Hacking and cyber theft are grave dangers that plague the digital world. Hackers can steal information and money from anywhere in the world. The challenge before the government is to put strong security systems in place to protect the online transactions from the hackers. Researchers have shown that it is easy to crack the PIN number and gain access to the virtual wallet by using software, if the cyber-criminal gets possession of the victim's phone.

- 5) The Indian public is not much educated with regards to the benefits of using cards or online payment methods. A vast majority prefer using cash as a convenient method of payment. Even the card holders consider cash to be a quick method and easy method.

Steps taken by RBI and Government to Encourage Cashless Transactions:

- 1) Government is promoting mobile wallets. Mobile wallet allows users to instantly send money, pay bill, and recharge mobiles, book movie tickets, and send physical and e-gifts both online and offline. Various incentives offered by government to promote digitalization in India to make India “Digital India” by focusing on cashless modes are:
 - i) On digital transactions up to rupees 2000, service tax of 15% waived off.
 - ii) Digital purchase of fuel through credit cards, mobile wallets or e-wallets, discount of 0.75%.
 - iii) Free accident insurance worth Rs. 10 lakh on account of online ticket buyers.
 - iv) On purchase of new LIC policies online via its site, 8% discount is offered.
- 2) Government has also launched UPI (Unified Payment Interface) payment system that can be used for immediate mobile transfers between account holders of two different banks.
- 3) Government has introduced various technologies like BHIM (Bharat Interface for Money) app to transact between each other as well as with other merchants. BHIM App currently has 17 million downloads in less than 3 months since its launch. And government is considerably promoting their digital cashless technologies other than BHIM such as UPI and Aadhar Enabled Payment Systems.
- 4) No transaction charge on debit cards. Economic Affairs Secretary Shaktikanta Das instructed all public-sector banks and some private ones had already agreed to waive the transaction cost for all payments made through debit cards.
- 5) As of now, Rupay debit cards have already waived the switching charges. Other debit cards that operate international card network companies like MasterCard and Visa at present charge service fees.

Conclusion:

It is a need of today to go cashless. Demonetisation was a necessary step to reduce the proportion of high denomination notes in the economy, to bring transparency, to increase creditability of the country and make a rise in investments. The transparency in the economy will

increase through the e-commerce transactions and the digital payment gateways which will increase the GDP of the economy. This step of cashless will help to attain vision of Prime Minister Modi's vision of "Digital India".

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