



DEMONETISATION IN INDIA: ADVANTAGES AND CHALLENGES

Dr Virender Koundal

Sr. Assistant professor Department of Economics University of Jammu Jammu

ABSTRACT This paper focuses on the Demonetisation of all Rs 500 and Rs 1,000 banknotes in India. The main Objectives behind this move were to unearth black money, to put check on corruption, curbing of terror financing, and demolish counterfeit currency. Another motive of the government was to create a cashless economy. Cashless transactions have the benefit of transparency i.e all transactions can be traced and tracked. This helps the government to track payment to terrorist organizations and other anti-national activities. According to Government of India the cashless policy impact will be felt in modernization of payment system, Convenient mode of payment, Capital formation, Unearthing of black money, Tax collection improve, Terrorist and naxalites funding control, Transparency and monitoring, Reduction in the cost of banking service, Reduction in high security and safety risk and also curb banking related corruption. Demonetisation has encouraged the entire economy to use less cash but has left various challenges for the people like India is a currency dominated economy. It is noticed high level of cash circulation in India. The biggest disadvantage of the cashless economy is that not everybody has the knowledge of doing digital transactions and hence its reach is limited to urban and semi-urban centers only. The biggest fear is the risk of identity theft. Another demerit of the cashless economy is that digital mode of payments like the credit card, wallet payments, internet banking involves some transactions fee which is not the case with cash transactions. As one can see from the above that cashless economy has advantages as well as disadvantages and any government thinking of adopting cashless economy model should carefully analyze the merits and demerits and then take the decision as the cashless economy cannot be imposed on the people rather it can be gradually adopted by the people of the country.

KEYWORDS : Demonetisation, Tender Money, Digital Transaction, NEFT, RTGS, AEPS, Unified Payments Interface, BHIM, RuPay, IMPS etc.

Introduction

On 8 November 2016, the Government of India announced the demonetisation of all Rs 500 and Rs 1,000 banknotes. These two currency notes are the most used currency in the Indian market, it had 85% share in the market (Sahoo and Arora, 2017). Some even say it is a "Surgical Attack" on black money. In simple words, old Rs 500 and Rs. 1000 notes are worthless now, they are just a piece of paper. The Indian government had earlier also demonetised bank notes on two prior occasions, once in 1946 and then again in 1978 and in both cases, the goal was to combat tax evasion by "black money" held outside the formal economic system. In 1946, the pre-independence government hoped demonetisation would penalise Indian businesses that were concealing the fortunes amassed supplying the Allies in World War II. In 1978, the Janata Party coalition government demonetised banknotes of Rs 1000, Rs 5000 and Rs 10,000 rupees, again in the hopes of curbing counterfeit money and black money (Pattanaik, 2017).

Meaning of Demonetization- Demonetization is an act by which government of a nation strips the circulation of one or more than one currency unit of its status as a legal tender. Either Withdrawal of currency notes from circulation or Withdrawal of currency notes from circulation and introduction of new currency units of the same denomination which are being demonetised or completely replacing the old currency with new currency of different demonetization (Wikipedia, 2017).

Types of Tender Money

Legal Tender Money- Demonetization of a country's currency by law, must be accepted as a medium of exchange and payment for a money debt. While usually all demonetization of the circulating paper money are legal tenders, the denomination and amount in coins acceptable as legal tender varies from country to country. This is also called lawful money. The legal tender money is of two types-

Limited Legal Tender Money- this is a form of money, which can be paid in discharge of a debt up to a certain limit and beyond this limit, a person may refuse to accept the payment and no legal action can be taken against.

Unlimited Legal Tender Money- in this form of money, which can be paid in discharge of a debt of any amount. A person who refuses to accept this money a legal action can be taken against. Paper note/currency are unlimited legal tender in India.

Non- Legal Tender Money- It is a form of money, which is generally accepted, but legally is not bound to accept it. Such as cheque, bank

drafts, bills of exchange, postal order etc. are not legal tenders and are accepted only at the option of the creditor, lender or seller.

Reasons for Demonetisation

The main Objectives behind this move were to unearth black money, to put check on corruption, curbing of terror financing, and demolish counterfeit currency. Another motive of the government was to create a cashless economy. Cashless transactions have the benefit of transparency i.e all transactions can be traced and tracked. This helps the government to track payment to terrorist organizations and other anti-national activities.

Non-Tax Compliant Society

It is noticed that in the year 2015-16, 3.7 crore assesses of the total population of over 125 crore, filed income tax returns. Out of these, 99 lakhs declared income below Rs 2.5 lakhs and paid no taxes. Rest of the 1.95 crores declared income less than Rs 5 lakhs, 52 lakhs declared income between Rs 5 to 10 lakhs, and only 24 lakhs declared income above Rs 10 lakhs. It shows that our society that both in the matter of direct and indirect taxes India continues to suffer being a hugely tax non-compliant society.

Table-1 status of cashless and corruption in a selected countries

Countries	% Non-cash payment	Corruption % index(2015)	Rank in corruption % index (2015)
Belgium	93	77	15th
France	92	70	23rd
Canada	90	83	9th
UK	89	81	10th
Sweden	89	89	3rd
Australia	86	79	13th
The Netherlands	85	87	5th
USA	80	76	16th
Germany	76	81	10th
India	22	38	76th

Source: Yojna, February 2017

In India, an estimated 22 percent is non-cash payment and India ranks 76th in the corruption Perception Index. This proves that there is a strong negative correlation between the cashless transaction and corruption. This means higher the cashless transaction lower the corruption and vice versa. The best way to reduce corruption and black

money in the economy is to move from an economy dependent predominantly on cash to electronic transfers, which needs universal banking access and facility. For cashless economy, digital transaction is required.

Digital Transaction

Digital payment is a way of payment which is made through digital modes. In digital payments, payer and payee both use digital modes to send and receive money. It is also called electronic payment. No hard cash is involved in the digital payments. All the transactions in digital payments are completed online. It is an instant and convenient way to make payments (Wikipedia, 2017).

Different types of digital Transactions

From commonly used cards to newly launched UPI, digital payments has many types of payment. Some modes meant for tech-savvies and some for less-technical persons. Below are the different modes of digital payments (Wikipedia, 2017).

UPI apps- unified payment interface

Unified payment interface is a payment mode which is used to make fund transfers through the mobile app. You can transfer funds between two accounts using UPI apps. You will have to register for mobile banking to use UPI apps. Currently, this service is only available for android phone users. Hence you can use UPI only when you have an android phone. There are too many good UPI apps available such as BHIM, SBI UPI app, HDFC UPI app, etc. It is not mandatory to use the UPI app from your bank to enjoy UPI service. We can download and use any UPI app. UPI apps are a faster solution to send money using VPA or even IFSC and account number (Wikipedia, 2017).

AEPS- Aadhaar Enabled Payment Service

AEPS is an Aadhaar based digital payment mode. Customer needs only his or her Aadhaar number to pay to any merchant. AEPS allows bank to bank transactions. It means the money you pay will be deducted from your account and credited to the payee's account directly. We need to link your Aadhaar number with your bank account to use AEPS. Unlike cards and USSD, AEPS does not have any charges on transactions. You can use AEPS with the help of PoS (Point of sale) machines. The good thing about AEPS is that it doesn't need your signature, bank account details or any password. It uses your fingerprint as a password. No one can forge your fingerprints, thus it is the most secure digital payment mode (Wikipedia, 2017).

NEFT- National Electronic Fund Transfer (upto 2 lakh)

National Electronic Funds Transfer (NEFT) is a nation-wide payment system facilitating one-to-one funds transfer. Under this Scheme, individuals, firms and corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme.

RTGS- Real Time Gross Settlement

Real-time gross settlement systems (RTGS) is a funds transfer system where money transfer takes place from one bank to another on a "real time" basis and "gross" basis. Settlement in the "real time" means that the transaction happens almost immediately

IMPS- Immediate Payment Service (for Urban Area)

Immediate Payment Service (IMPS) is an instant real-time inter-bank electronic funds transfer system in India. IMPS offers an inter-bank electronic fund transfer service through mobile phones. Unlike NEFT and RTGS, the service is available 24/7 throughout the year including bank holidays.

BHIM- (Bharat interface for money)-

BHIM (Bharat Interface for Money) is a Mobile App developed by National Payments Corporation of India (NPCI), based on the Unified Payment Interface (UPI). BHIM allow users to send or receive money to or from UPI payment addresses, or to non-UPI based accounts (Sahoo and Arora, 2017).

RuPay- Indian version of a credit or debit card for Jan Dhan account holders

RuPay is an Indian domestic card scheme conceived and launched by the National Payments Corporation of India (NPCI). It was created to fulfil the Reserve Bank of India's desire to have a domestic, open loop

and multilateral system of payments in India (Sahoo and Arora, 2017).

Advantages of a Cashless Economy

Convenient mode of payment- 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.

Lower risk- If stolen, it is easy to block a credit card or mobile wallet remotely, but it's impossible to get your cash back. "In that sense, the digital option offers limited security," says Pai. This is especially true while travelling, especially abroad, where loss of cash can cause great inconvenience. Besides, if the futuristic cards evolve to use biometric ID (finger prints, eye scan, etc), it can be extremely difficult to copy, making it a very safe option.

Capital formation- Since all transactions will be done through organized channel that is through banks and financial institutions it results in increase in tax revenue for the government as all cash transactions which were done illegally come into banking system which in turn helps the government in tracking all transactions and levying tax on them which in turn can be used by the government for betterment of economy of the country (Parikh, 2017).

Unearthing of black money- It is easier to track the black money and illegal transactions because if cash is used directly for doing transactions than it is not easy to track the transactions as the money does not come into the banking system however in case of digital transactions it is easy to track the transaction as all records are there with the banks which result in more transparent transactions which in turn leads to fall in corruption in the economy of the country (Parikh, 2017).

Tax collection improve- Taxation, with lesser availability of hard cash at homes and more in banks, there is lesser scope of hiding income and evading taxation and when there are more tax payers it ultimately leads to a lesser rate of taxation for the whole country (Shendge, Shelar and Kapase, 2017)

Terrorist and naxalites funding control- When people are encouraged to go cashless, there is lesser cash available with the people and there won't be a means to invest in other activities to use the idle cash. Channels like hawala (illegal remittance) will ultimately suffer the brunt of a cashless economy.

Transparency and monitoring- It becomes a lot easier to track the flow of money with every transaction being recorded with the buyer, seller as well as regulatory bodies, making the system much more transparent and compliant. In the long term it leads to better business and investment prospects for the economy as a whole

Challenges of a Cashless Economy

Demonetisation has encouraged the entire economy to use less cash but has left various challenges for the people and also for the government.

Rural economy- India is a currency dominated economy. It is noticed high level of cash circulation in India. Cash in circulation amounts to around 13 percent of India's GDP. In rural areas, there are only 20.8 percent of ATMs of public sector banks and 8.5 percent of the ATMs of private sector banks. It means very difficult to find an ATM in a rural area (Saurabh, 2017).

Illiteracy and Inadequate infrastructure- The biggest disadvantage of the cashless economy is that not everybody has the knowledge of doing digital transactions and hence its reach is limited to urban and semi-urban centers only and therefore it is very difficult to implement cashless economy in the big country where many sections of the society in rural areas is illiterate and poor. Hence the lack of proper infrastructure and education among citizens is disadvantageous as far as the cashless economy is concerned (Parikh, 2017).

Cyber security risks- The biggest fear is the risk of identity theft. Since we are culturally not attuned to digital transactions, even well-educated people run the risk of falling into phishing traps. With the rising incidence of online fraud, the risk of hacking will only grow as

more people hop on to the digital platform.

Transaction cost- Another demerit of the cashless economy is that digital mode of payments like the credit card, wallet payments, internet banking involves some transactions fee which is not the case with cash transactions and hence any individual thinking of doing online transactions will take into account these transaction costs and will not favour online medium of transactions. Hence the presence of transaction cost is a hindrance to cashless economy finding acceptance among the people of the country (**Parikh, 2017**).

Conclusion

Achieving a complete cashless economy will never be possible, but one can always start from a less cash society and then move towards becoming mostly cashless. As one can see from the above that cashless economy has advantages as well as disadvantages and any government thinking of adopting cashless economy model should carefully analyze the merits and demerits and then take the decision as the cashless economy cannot be imposed on the people rather it can be gradually adopted by the people of the country.

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