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**Commerce**

**Demonetisation- India's March Towards Digital Economy**

**KEY WORDS:** Demonetization, Digital Economy, Cyber Security, Cash, Money.

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**ABSTRACT**

There are very few dates in the history of India that are as crucial as the November 8, 2016. The date is remembered for the demonetization decision announced by the Prime Minister of India which stripped the Rs 500 and Rs 1,000 currency notes of their legal status. In the process, 86% of Indian currency lost its value. The government put forward many logic behind this unexpected monetary exercise. One of the stated goal includes the transition of Indian Economy into Digital Economy. However many have criticized the government move by labelling demonization as the unwarranted monetary shock. Many have raised question about the suitability of such move in a developing country like India where cash is king and where there are many cleavages based on financial literacy, digital divide, economic status, financial inclusion etc. and that the situation is not ripe for India to become digitized economy.

However the government continued its attempt to make India a digital economy through various initiative in the form of policies and measures like promoting E-Wallets, Mobile Money, Mobile Wallets, E- Banking, Digital transactions etc. One the major impediment in our possible transformation to digitized economy is that of Cyber security and trust of the people in the new virtual architecture. At this point of time it can be said that we are coming in terms to the changing digital realities. Certainly we are the part of an economic revolution and hopefully we all will witness the positive transition from here onwards.

**Introduction**

In the economic history of our nation there are very few instance which have elicited such a huge and varied emotions like Demonetization of 2016. This is rightly so as the sheer scale of the exercise has hardly any precedent to compare with. At the stroke of the mid-night of 8<sup>th</sup> November, 2016; 86% of our currency in circulation rendered useless (RBI, 2016). The Rs 500 and Rs 1,000 currency notes were shun of their legal status as official currency.

Behind the exercise of the demonetization, the Government declared following objectives:-

1. To check the menace of corruption
2. To address the problem of Counterfeit currency
3. To scale down the Black economy
4. To control the acts of terrorism and insurgency
5. To make India a digital economy

In this paper an attempt is being made to analyze the one of the stated goal of transition of Indian Economy into digital economy. However even months after the demonetization, it is still not wise to pass on the verdict regarding the efficacy of the demonetization as there is generally a time lag between the policy implementation and knowing the full impact of such policy.

India, being a developing economy, major proportion of transactions are undertaken in cash, both on term of volume and value of the transactions. According to J.P. Morgan, an investment bank, cash represented 98% of all transactions by volume and 68% by value.

There are various push and pull factors that are responsible for such romance of Indian public for cash. According to Mihir Sharma, a writer and business columnist, "What started as a 'surgical strike' on black money is now called the dawn of a cashless society." This opportunity, if milked in the right way, will go a long way in ensuring that cash finds minimal use in the future. The move is largely seen as an impetus to PM Modi's ambitious project "Digital India" which seeks to integrate a digital infrastructure into the present system. One of the goals of this project is to largely eliminate cash-based transactions by encouraging digital payment systems. The Reserve Bank of India has thrown its full weight behind a cashless economy by creating a new digital payment interface called Unified Payments Interface.

On the other hand the critics have pointed out the demonetization as a grave mistake which has done irreversible damage to our economy. Our former Prime Minister Manmohan Singh labelled it as "Making of a Mammoth Tragedy" which is going to bring down our GDP growth by 2%.

According to Mamata Banerjee, Chief Minister of West Bengal, "Today, three months over. Restrictions and sufferings not over. Citizens have lost economic freedom. When economic freedom is lost, a main freedom is lost. Only few rich capitalists are not suffering. Commoners, middle class, downtrodden, poorest continue to suffer.

The on-going debate and discussion around the demonetization reflects the importance of the concept and resultant policy, there by bringing it at the center stage of economic and political landscape of India. Given the economic weight that of our economy carries, the exercise of demonetization has emerged as the matter of great economic concern across the globe and international organizations like IMF and World Bank. Arguments and analyses presented on demonetization has firmly put India at the nucleus, will be useful in taking the intellectual discussion forward and enunciating policy suggestions in a rapidly evolving Indian Economy and its transformation into Digital Economy.

**Review of Literature**

Vineet Kohli and R Rama kumar (2016) "Economic Rationale of 'Demonetization', the researchers have submitted their concern over the digital payment architecture as digital payment leave a trail unlike cash. This opens new vistas of undermining of civil liberties, state surveillance and infringement of privacy, especially in the light of missing safeguards in our Indian legal system and our cyber security architecture. The personal meta-data that would be generated through digital trail would be hot potatoes in the grey market and will undermine the trust between the state and its citizens. The JAM (Jan Dhan–Aadhaar–Mobile) trinity, is matter of great concern in the realm of freedoms of people.

Shweta Mehta, Kruti Patel and Krupa Mehta (2016) "Demonetization: Shifting gears from physical cash to digital cash" The Indian reality is that the cash plays a prominent role as many trades and areas are still cash based and transition of digital economy need a lot of planning and effective execution. Resulting disruption in the real economy stemming from this move is very significant and potentially fatal for some vulnerable sections of society and there looms the risk of mob violence and rioting.

Kobad Ghandy (2016) "Demonetization- One Step Forward, Two Steps Back" examined the stated goals of the demonetization that is eradication of black money, counterfeit currency, and paving the way for a cashless society. As far as the claim of the shift to the cashless economy is concerned, the author has pointed out that the situation is not yet ripe for India as less than 50% of our households have access to a bank. Secondly an overwhelming (over 60%) part of our economy is in the informal sector which is

hugely dependent on cash transactions. India has one of the highest cash to GDP ratios in the world, 12% compared to a world average of 4%. An estimated 78% of transactions in India are in cash compared with 20%–25% in industrialized countries.

Omotunde M., Sunday T.' John-Dewole A.T. (2013) "Impact of Cashless Economy in Nigeria" have made an attempt to study the impact of Cashless Economy using accidental sampling method, in Lagos state, Nigeria. The researcher, based on their study, concluded that study shows that the introduction of cashless economy in Nigeria can be seen as a correct step in terms of its possible impact towards modernization of Nigeria payment system, reduction in the cost of banking services, reduction in high security and safety risks. It is also expected to play an instrumental role in addressing the problem of curbing banking related corruptions and promoting transparency, along with reduce the amount of bills and notes circulating in the economy which will reduce the cash carrying cost and related crimes. It should also help to provide easy access to banking services for Nigerians.

V. E. Ejiofor and J. O. Rasaki (2012) "Realizing the Benefits and Challenges of Cashless Economy in Nigeria: IT Perspective" mentioned that the Central Bank of Nigeria has opted for Cashless economy policy in order to achieve the goal of sound economy in accordance with its 2020 Vision. The researcher have presented their thoughts on a cashless system, Information Technology, internet banking techniques and highlighted the benefits of cashless economy and that electronic payment systems have the potential to reduce if not eliminate the problems consumers face in the payment and settlement system. The researchers revealed that the consumers have shown their readiness in accepting new cashless economy ecosystem in spite of potential risks and possible bottlenecks.

Georgios Papadopoulos (Working Paper 2007) "Electronic money and the possibility of a cashless society" has mentioned that ICT revolution has played a decisive role in the expansion of the electronic payment systems and payment instruments. It has made the communication far more, faster, secure, reliable, cheaper and easier which has made the fund transfers systems more efficient leading to expansion of debits and credit transfers. The evolution in this realm has been seen as the stepping stone for the possible cashless society. The researcher has concluded that the Electronic money, although seems promising but failed to meet the expectations and unlikely to replace cash in immediate future.

**Initiatives: for transformation into Digital Economy**

The Government, Banks and other stake holders have taken various steps in order to ensure the transition of Indian economy to digital economy. Some of the major steps taken are as follows:-

1. Promotion of Unified Payment Interface (UPI), NPCI launched a pilot project for Bharat Bill Payment System (BBPS) with 26 Bharat Bill Payment Operating Units (BBPOUs). Most banks now offer UPI-enabled apps on Google Play Store.
2. Launching of the BHIM App
3. Encouragement to E- Banking and Mobile Banking by facilitating these transaction initially free of cost to the customers.
4. Various Banks have launched own Mobile Wallets and Mobile Banking Apps in order to give push to digital transactions. For example Buddy by SBI, Pockets by ICICI Bank Ltd, Lime by Axis Bank Ltd., PayZapp by HDFC Bank Ltd., Kitty by PNB.
5. E-Wallets and various Mobile Apps launched by various Private players like Paytm.
6. NPCI initiated new electronic toll collection (ETC) system would eventually include other vehicle-related payments such as parking fees, servicing and fuel charges in order to give digital boost to the economy.
7. Government has launched 2 schemes, for consumer the scheme is called 'Lucky Grahak Yojana' & for small traders 'Digi DhanVyapar Yojana'
8. Major telecom players in India launched Mobile payment options. Like M-Pesa of Vodafone, Airtel Money, Jio-Money by Reliance JioInfocomm Ltd.

9. The government launched a new TV channel named DigiShala and a new website named Cashless India in order to familiarize citizens about digitally performing the transactions.
10. The government mandated installation of 10 lakh new Point of Sale machines by March, 2017.
11. Promotion of Less- Cash townships (A township is declared less cash if it conducts 80-100% of transactions using digital means)

Is it correct to assume that it is the beginning of an era of New Normal in our Economic and Banking landscape? Let us examine it with the help of the table given below.

Table No.-1-Digitization of Indian Economy

S. No	Particulars	Before Demonetisation (Volume)	After Demonetisation (Volume)	% Change	Before Demonetisation (in Rs) (Dec, 2016)	After Demonetisation (in Rs) (Dec, 2016)	% Change
1	Credit Card	895 Lakh	1,118 Lakh	24.916	30,242 Crore	29,989 Crore	-0.837
2	Debit Card	9,426 Lakh	9,137 Lakh	-3.066	2,76,723 Crore	1,50,140 Crore	-45.744
3	Debit Card Transaction at PoS	1,406 Lakh	3,215 Lakh	128.662	21,941 Crore	43,874 Crore	99.982
4	Credit Card Transaction at PoS	889 Lakh	1,115 Lakh	25.422	29,942 Crore	29,998 Crore	0.187
5	Digital Payment Solution*	1,269 Lakh	2,610.9 Lakh	105.745	6,022 Crore	9,770 Crore	62.239
6	Mobile Wallets	995.7 Lakh	2,131.1 Lakh	114.030	3,385 Crore	7,448 Crore	120.030
7	Mobile Banking	780.8 Lakh	896.1 Lakh	14.767	1,13,578 Crore	1,48,583 Crore	30.820
8	ATMs	2,19,578	2,19,866	0.131			
9	PoS Machines	15,12,068	17,05,423	12.788			

Source- RBI's Monthly Bulletins, NPCIL, NITI Ayog

\*(Mobile Wallet, Pre-Paid Cards, Paper Vouchers)

**Discussion & Conclusion:-**

1. The possible reason behind the fall the usage of Debit cards as a mode of transaction, in term of both volume and value of transaction, can be traced to the fact the in India 88% and 94% of total debit card transaction are used for ATMs in terms of Volume and Value respectively (Concept Paper on Card Acceptance Infrastructure, RBI, March 2016).

During this period as mentioned in the table, there were limits imposed on the withdrawal of money from the ATMs which would have reduced the usage of Debit cards usage in terms of volume and value of transactions.

2. The reason behind the increase in the Digital Payment Solution can be attributed to some extent to e-commerce firms such as Flipkart, Snapdeal, Amazon, Myntra, Jabong etc. started offering attractive discounts to woo customers and to the cash crunch in the physical market space.

3. The decline in cash availability and ATM withdrawal has contributed to behavioral change in the economic and transaction realm which is reflected in the exponential increase in the Digital Payment options/ platform/ solutions like E-Wallets, Mobile Banking, IMPS, BHIM, UPI etc.

4. During this period the increase in the ATMs is merely 0.131% while the increase in the PoS machines is handsome 12.788%. In term of absolute numbers, the availability of PoS machines is 7.766

times of ATMs. Based on this fact it can be stated that people are coming in term to the digital reality and are therefore accepting the digital mode as a medium of undertaking the transaction.

5. There is remarkable increase in Mobile Wallets and Mobile Banking transaction (both in terms of volume and value). This also reflects the advantages of mobile penetration in India and also the ease of operation of such platforms to do the transaction because of which it is gaining currency among the people with each passing day.

### Way Forward

The demonetization of 2016 is indeed a major economic step which has taken almost all of us off the guard. There was a huge element of surprise but for the obvious reasons. No doubt things have changed although the rate of change is matter of debate, discussion and deeper analysis.

The people of India have started accepting the substitutes of cash as the mode of doing the transactions. There has been huge acceptance of Mobile Wallets, E-Banking, Mobile Banking and other Digital Payment Solutions which is reflected in the increase in their usage is the medium of performing the transaction. It also points out the paradigm shift in the economic behavior (in term of transaction) of the people where the status of Cash as the King is under threat.

However there are miles to go before we achieve the goal of Digitized Economy. Before that there are many impediments which need to be set right like our digital infrastructure, cyber security, financial literacy, digital divide etc. One of the most demanding of these issue is that of securing the stake holders from cyber crimes, online frauds etc. For this a New Cyber Policy and New Encryption Policy, devised after discussion and deliberation with various stakeholders and experts based on the democratic spirit. It would possibly be a good starting point which can prove to a good guide for our government there by it must ensure proper cyber eco-system, relevant mechanisms and cyber architecture in order to keep the vitals of virtual platform intact.

Finally, money is not an objective reality rather it is a subjective reality which is driven by trust (Yuval Noah Harari, 2011). Moving to cyber space assumes the transfer of this faith from currency note to the cyber space operators and players. The basis of any strong system is the element of trust. The government must ensure that the people should be at ease and secured in the cyber space without any fear of being wronged by anyone.

We have taken the road to digitization, which to a greater extent is irreversible. Although there are apprehensions that once the government re-monetize the economy to its earlier level (before demonetization) will the people not fall back to their romance with the cash? In this case the time is certainly going to be the best judge.

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