



**ORIGINAL RESEARCH PAPER**

**Management**

**EFFECTS OF DEMONETIZATION ON MAKING INDIA AS A CASHLESS ECONOMY**

**KEY WORDS:** Demonetization, Credit Cards, Debit Cards, Cashless Economy

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**ABSTRACT**

Traditionally India is a cash based economy, but recently announced the biggest and most ambitious move to crack down black money and move towards digitization and cashlesseconomy. The **Demonetization** is the act of banning/taking back of a currency notes of its status as legal tender. It is necessary whenever there is a change of national currency. The old note of currency must be retired and replaced with a new currency note. The paper discusses about the action of 'Demonetization' taken by Central Government of India on 8<sup>th</sup> November, 2016, is a positive step to a cashless economy with a greater focus on electronic transactions is being predicted. The usage of credit/debit cards, net banking and other online payment mechanisms will be another positive effects of demonetization.

**Introduction**

On 8<sup>th</sup> November 2016, the Prime Minister of Government of India, Sri Narendra Modi announced a tsunami news to Indian public by way of cancel the legal tender character of Rs.500 and Rs.1,000 banknotes with effect from 9 November 2016. These demonetization measures had led exchange of Rs. 500 and Rs. 1000 notes before 31<sup>st</sup> December, 2016 and put significant restrictions on cash withdrawal at both bank and Automatic Teller Machines. This has an immediate impact on the citizens of India across rural and urban areas. These measures have resulted in a significant decrease available cash through Rs.100, Rs.50 Rs.20 and Rs. 10 notes. The new Rs. 2000 note was not available until end November and Rs. 500 note was not available until 2<sup>nd</sup> week of December, 2016.

The ATMs have to be programed for these notes, which took lot of time. This led to non-usage of most of the ATMs across India. More the Rs.10 crore Jan Dhan accounts were opened with the Prime Minister's initiation to promote banking across rural areas which were flooded with deposits in thousands. Only gas stations, government offices and medical shops accepted banned Rs. 500 note. This eased gradually with the introduction and circulation of the new currency notes in the month of December 2016. As a result of these measures and increased deposits with banks, the bank deposit base has increased significantly. With cash transactions impacted by a decrease in liquidity, alternative payment methods, such as e-wallets, online transactions using e-banking, debit and credit card usage have increased significantly. This will increase usage of such payment systems, and enable a shift towards an efficient cashless infrastructure (Squire Patton Boggs).

Though India has 2<sup>nd</sup> largest internet users, more 350 million, the online transactions require more than one MB broadband line. There is need to develop physical infrastructure such as Point Sale Machines, POS, increase of Broadband speed, Secure Mobile Infrastructure and educate rural people how use because they just cannot understand English usage on these machines. The government has been successfully engaging the digitization of all departments and has set-up Common Service Centers (CSCs) to deliver the e-governance services even in all the villages across India. To increase the speed of development and adoption of digital services, the Government of India needs to increase availability of digital infrastructure in rural areas, leverage existing infrastructure and improve digital awareness (Digital India).

The move to electronic banking through debit and credit cards, bank transfers, Internet and mobile banking is a key aspect of the "Demonetization" process. While the use of cash for retail transactions was 95%, according to this 2013 report from McKinsey, a consultancy, it was 68% in 2016, the Business Standard reported, quoting the CLSA, a brokerage group. The non-cash payments through cheques, demand drafts, net-banking and cards accounted for only 22% of all consumer

payments in India according to Boston Consulting Group (BCG) in July 2016.

**Need and importance of the Study**

After the Demonetization move on 8<sup>th</sup> November, 2016 to ban Rs. 500 and Rs. 1000 notes public, small businesses, private firms and public firms had suffered to withdraw their amount from the banks unless they have credit or debit or net banking or mobile banking facilities. The cash transactions have taken a toll and created huge lines at banks and also ATMs. Another interesting story many merchants do not have POS machines. Out of 1.5 million merchants across India, there are only less than 15 lakh POS machines. Only 5 lakh POS machines can be produced, yet they need internet connection and broadband speed. This lack of Internet facility in many villages and tier II and tier III cities has to be studied along with bringing training facilities to use on line banking.

**Objectives of Study**

- To study the effect of the Demonetization on cashless payments in India.
- To study the barriers in implementing cashless transactions.
- To give the suggestions to improve the cashless transactions.

**Methodology of the Study**

The study is based on the secondary sources of data collected from the various economic surveys of India and industrial data, RBI bulletins, online database of Indian Economy, journals, articles, news papers, etc.

**Indicators to expand India's Cashless Economy**

To advance the cashless transactions, the RBI introduced National Electronics Funds Transfer, NEFT and Real Time Gross Settlement RTGS across all banks in India in early 2005 besides the Debit Card, Credit Card and Net Banking. But the mobile banking initiatives were taken in the year 2014.

**1. Growth in electronic bank transfers, 2011-16**

Bank transfers made through the NEFT system rose five times in Volume and 4.5 times in value, while transfers using the RTGS system rose 70% in Volume and 50% in value over five years ending 2016, according to October 2016 RBI data. NEFT recorded 1.19 billion transactions in October 2016, compared to 199 million in 2011; RTGS transactions rose from 511 million to 864 million over the same period. All the electronic transfers requires Internet access.

But, only 13% (108 million) of 833 million Indians in rural areas have Internet access. India has 342 million Internet users, according to March 2016, Telecom Regulatory Authority of India (TRAI) data. In urban India, 58% of people have access to Internet. But 73% of Indians cannot access the Internet, how the cashless technology works.

**2. ATMs and Point of Sale (POS) machines doubled between 2011 and 2016**

There were 1.4 million POS machines used to swipe debit and credit cards and 200,000 ATMs in October 2016, according to RBI data, a doubling of numbers over five years as shown in table 1. From an ATM for every 12,000 Indians, there is now one for every 6,500. The State Bank of India (SBI) has opened more than 26,000 ATMs over the last four years, according to RBI data, higher than the next four banks (HDFC, ICICI, Axis and Kotak) put together. The world average of ATMs per 100,000 people was 44 in 2014, according to World Bank data, nearly 2.5 times in India.

**Table-1: Growth of ATM and POS Machines in India**

Year	No. of ATMs	No. of POS Machines
2011	087355	0,618,756
2012	105784	0,812,672
2013	141516	1,025,732
2014	176410	1,058,642
2015	193768	1,245,447
2016	202801	1,461,974

Source: www.rbi.org.in

**3. Debit cards rose 170% over 5 years; Credit cards rose 50%**

The size of credit cards increased from 17.7 million in 2011 to 26.4 million in August 2016, according to the RBI data. The Debit cards rose from 263 million to 712 million as shown in table-2. The credit-card growth in India hit a rough patch after an economic slowdown in 2008, with one in four customers defaulting on dues and 10 million credit cards cancelled, the Economic Times reported in 2013.

**Table-2: Growth of Debit and Credit Cards in India**

Year	Debit Cards	Credit Cards
2011	263,796,762	17,672,337
2012	314,436,803	18,851,381
2013	372,506,779	18,686,136
2014	500,080,855	20,362,859
2015	643,191,224	22,748,760
2016	712,465,787	26,378,940

Source: www.rbi.org.in

The Debit cards are mainly used for cash withdrawals from ATMs in India as POS machines were not implanted at local merchants. Only in urban areas they are used for cashless payments, as March 2016 government data confirm. Rs 25 lakh crore was withdrawn through ATMs during the financial year 2015-16. It is 5.4 times more than transactions with POS machines which is Rs 3.9 lakh crore.

**4. Mobile-phone banking transactions tripled in 2012-16**

Mobile phones across the world have grown from Rs 4,185 billion in 2012 to Rs 5,243 billion in October 2016. While mobile banking transactions rose 2.2 times between 2012 and 2016, from 446 million to 1.4 billion. For a majority of banking applications, a smartphone is a prerequisite. Of 930 million mobile phone subscribers, only 154 million subscribers (16.5%) have broadband connections, according to this March 2016 TRAI report, limiting access to mobile banking. Another hurdle is the average time to load a page on a mobile phone. It takes 5.5 seconds in India, according to the 2016 report by Akamai Technologies,

**Table-3: Growth of Mobile Transactions in India** (Rs. in millions)

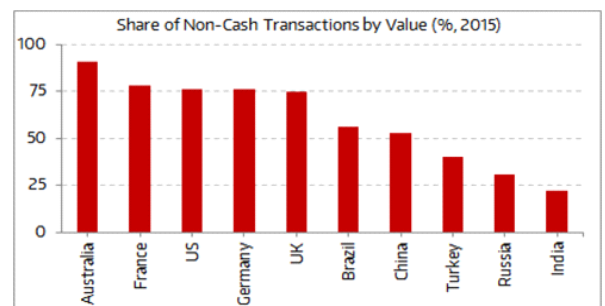
Year	Transactions	Amount
2012	0447	4185
2013	0830	1619
2014	1446	6662
2015	0308	2914
2016	0450	5243

Source: www.rbi.org.in

Over last few years, India has seen rising penetration and adoption of digital payments. Apart from cards and net banking, mobile banking transactions are on rise. However, if one compares India's position vs. global peers, it lags far behind. According to study conducted by Boston Consulting Group (BCG) in July 2016, the non-cash payments, through modes such as cheques, demand drafts, net-banking and cards, currently account for **22% of all consumer payments in India**. The countries like, Australia, France, US, Germany, UK and China have "Non-Cash" transaction over 50%. However, by 2025 the group projected the number to increase to 59%, as India moves towards digital transactions.

It can see that after the demonetization of Rs.500 and Rs.1,000 notes has led people to turn to cashless options such as debit cards, credit cards, net banking and mobile wallets such as PAYTM leading to as much as jump in usage. According to the Finance Ministry data, the number of daily transactions through e-wallet services such as Oxigen, Paytm and Mobikwik stood at only 17 lakh on 8<sup>th</sup> November, 2016 rose from rose to 63 lakh as on 7<sup>th</sup> December 2016, a growth of 271 per cent. The value stood at Rs 52 crore on 8<sup>th</sup> November 2016 rose to Rs.191 crore on 7<sup>th</sup> December 2016. Transactions through RuPay Cards (e-commerce and point-of-sale) were up 316% at 16 lakh daily from 3.85 lakh on November 8), while in terms of value the growth has been 503% at Rs 236 crore from Rs 39 crore).

**Graph-1: Just 22 % of India's transactions are Non-Cash**



www.equitymaster.com

Source: Economic Times, BCG

**Conclusions**

This study has analyzed the scenario after the demonetization of Rs.500 and Rs.1000 notes and how the cashless transactions have been grown. Yet, millions of Indian don't have the Debit or Credit cards or don't know how to use net banking. Yet the government backed United Payment System, UPI, not as popular as e-wallets like Paytm and Free Charge, has still managed to do 358,000 transactions in the first nine days of December, shooting past November 287,000 total, according to the RBI. The no. of ATMs have to be increased 44 per 1 lakh people (World average) from 20 as of 2016. The POS machines will be increased by a 50% or a million according to the RBI. There is low bandwidth to work with the Internet. More machines connected to internet with less bandwidth. There are several obstacles to do cashless transactions in our country besides good training needed in local language in all rural areas.

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