

# **DEMONETIZATION: IMPACT ON CASHLESS PAYMENT SYSTEM**

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## **ABSTRACT**

*Demonetization is a generations' memorable experience and is going to be one of the economic events of our time. Its impact is felt by every Indian citizen. Demonetization affects the economy through the liquidity side. Demonetizing is Progressive shift to a cashless economy with a greater focus on electronic transactions is being envisaged. Rising use of credit/debit cards, net banking and other online payment mechanisms will be another positive effect of demonetization, as these would not only lower transaction costs but some of these could help earn some fee income as well.*

**Keywords: Demonetization, Electronic Payment System.**

## **I. INTRODUCTION**

The demonetization of the highest denomination currency notes is part of several measures undertaken by the government to address tax evasion, counterfeit currency and funding of illegal activities. The requirement to deposit currency notes in excess of specified limits directly into bank accounts has resulted in the declaration of hitherto unaccounted income, subject to higher tax and other penalties. India has one of the highest levels of currencies in circulation at over 12% of GDP and of this cash, 87% is in the form of Rs500 and Rs1,000 notes. Globally, this is not unusual as the central banks of several countries pump massive amounts of cash into the economy, mostly in very large denominations. Facilitating faster payment services The payments eco-system in the country provides multiple options to different segments of users for funds transfer as well as for making payments in exchange of value for goods and services. With increasing adoption of electronic payments, particularly those driving e-commerce and m-commerce, there is a growing demand for faster payment services which, in turn, facilitate ease in doing financial transactions.

## **II. LITERATURE REVIEW**

**Annamalai, S. and Muthu R. Iiakkuvan (2008)** in their article "Retail transaction: Future bright for plastic money" projected the growth of debit and credit cards in the retail transactions. They also mentioned the growth factors, which leads to its popularity, important constraints faced by banks and summarized with bright future and scope of plastic money.

**Alvares, Clifford (2009)** in their reports “The problem regarding fake currency in India.” It is said that the country's battle against fake currency is not getting easier and many fakes go undetected. It is also stated that counterfeiters hitherto had restricted printing facilities which made it easier to discover fakes.

**Ashish Das, and Rakhi Agarwal, (2010)** in their article “Cashless Payment System in India- A Roadmap” Cash as a mode of payment is an expensive proposition for the Government. The country needs to move away from cash-based towards a cashless (electronic) payment system. This will help reduce currency management cost, track transactions, check tax avoidance / fraud etc., enhance financial inclusion and integrate the parallel economy with main stream.

**Jain, P.M (2006)** in the article “E-payments and e-banking” opined that e- payments will be able to check black ”An Analysis of Growth Pattern of Cashless Transaction System. Taking fullest advantage of technology, quick payments and remittances will ensure optimal use of available funds for banks, financial institutions, business houses and common citizen of India. He also pointed out the need for e-payments and modes of e-payments and communication networks.

### III. OBJECTIVES OF THE STUDY

The study aims at:

- To study Role of Demonetization
- To Examine Status of Electronic Payment System

### IV. METHODOLOGY

The study is based on secondary sources of data/ information. Different books, journals, newspapers and relevant websites have been consulted in order to make the study an effective one. The study attempts to examine the Cashless Payment System in India.

#### 4.1 DEMONETIZATION OF CURRENCY

Demonetization is the act of stripping a currency unit of its status as legal tender. It is the process of ceasing to produce and circulate particular forms of currency. This is necessary whenever there is a change of national currency. The old unit of currency is retired and replaced with a new currency unit. Legal tender is a medium of payment recognized by a legal system to be valid for meeting a financial obligation. It can be anything which when offered in payment extinguishes the debt. Coins and banknotes are usually defined as legal tender whereas personal cheques, credit cards, and similar non-cash methods of payment are not considered legal tender as debt obligations is not relieved until the payment is tendered.

The higher denomination banknotes in Rs 1,000, Rs 5,000 and Rs 10,000 were reintroduced in the year 1954 and these banknotes were again demonetized in January 1978. So the last time demonetisation was done in India is almost 36 years ago.

#### 4.2 AIM FOR LESS-CASH & NOT CASH-LESS

- Cash greatly facilitates transactions and there are legitimate high value transactions in every economy.
- The fundamental idea behind this exogenous shock is to raise the cost of illegal transactions and not going cash less.

- Going less-cash is a fine balance between maintaining ease of financial transactions and curbing malpractices.
- As cash facilitates crime because it is anonymous and big bills are easy to carry.

### 4.3 CASHLESS PAYMENT SYSTEM

As the banking system evolved, it became easier, safe and even remunerative to keep one's money in a bank account and it became still more easier and safe to use 'transfer of money in bank accounts' for making payments for the economic transactions. This was more so for large value transactions. Actually, it is now used equally for effecting low value transactions also. For effecting this transfer of money in bank accounts, a payment instrument was needed to instruct the bank to effect that transfer. This instrument was the cheque for a very long period. Thus a system consisting of the cheque as the payment instruments and an infrastructure around the cheques consisting of the drawee bank, the drawer bank and the cheque clearing houses came on the scene and were known as the payment systems.

With the developments in the information and communication technology, world over, different kinds of payment instruments and innovations in the instruments and the payment systems evolved. It happened in India too and that's the story I will be narrating now.

Today we can boast of a strong retail payments framework in the country comparable to that of any advanced country, and perhaps even better than some of them in terms of the variety and efficiency. Various types of payment instruments exist to meet the requirements of different users in different circumstances – bank accounts, cheques, debit and credit cards, prepaid payment instruments, etc. There are various systems to meet the remittance requirements of users depending upon their time criticality and cost sensitivity – National Electronic Funds Transfer (NEFT), Immediate Payment Service (IMPS), Aadhaar Enabled Payment System (AEPS) and recently Unified Payments Interface. The need for making bulk and repetitive payments is met by systems such as Electronic Clearing Service (ECS), National Automated Clearing House (NACH) and Aadhaar Payment Bridge System (APBS).

### 4.4 HOW IS OUR PAYMENT SYSTEM INFRASTRUCTURE?

- India has seen a rapid disintermediation of the payments system that was once restricted to only banks and their traditional clearing facilities.
- Entrepreneurs abound in the recent digital payment interfaces such as prepaid instruments like mobile wallets.
- These will replace the traditional clearing systems such as RTGS (real time gross settlement) as also online facilities provided by banks and telecom companies.
- Unified Payments Interface is in itself a game changer and only banks have been allowed by the Reserve Bank of India (RBI) to become payment service providers keeping wallets and other prepaid instruments out, thus giving a boost to banks in the race to secure a big slice of the payments pie.

### 4.5 DEMONIZATION EFFECT ON ELECTRONIC PAYMENT SYSTEM

The government wants India to go cashless, but doing so is not easy. Cashless transactions have their downsides for consumers. But, for those with access to digital payments, rejecting cashless options or hesitating to embrace technology is also not the answer, especially in the wake of the cash crunch brought on by the government's demonetisation move. Questions of access aside, a cashless world has its benefits. Embracing cashless options

and being an informed consumer who is aware of the available systems and their designs increases the chances of a convenient and consumer-friendly experience. Traditionally, online transactions were done either by providing debit and credit card details or through net banking interfaces. While there were issues of security, which kept improving, the payment experience was not very user-friendly. These options were also largely restricted to computers with access to internet. But after the smartphone revolution, things have changed entirely. India has seen an explosion in digital payment options, from e-Wallets to the Unified Payment Interface to a combination of the two. There are many cashless payment options available in India. 5 Best cashless payment options in India.

- 1) E Wallets – **E Wallets** have become very famous nowadays. After demonetisation, use of e wallets has been implemented at a very large-scale. These e wallets allow users to make payments using your mobile number or by scanning a QR code which takes place in a jiffy. All you need to do is simply download a wallet like paytm.
- 2) UPI – **UPI** also known as Unified Payments Interface is another great way to go cashless. Unified payments interface also called UPI is system of payments. Using unified payments interface, people can transact using their smartphones. To pay using this system called unified payments interface, you need 2 important things: Smartphone and a Bank Account.
- 3) Plastic Money – **Plastic Money means debit cards and credit cards** that are used at ATM's for cash withdrawal and POS machines while shopping. Having a debit or credit cards make you burden free from carrying cash.
- 4) Net Banking – **Net Banking** is another handy way to get cashless transactions done. All you need is a bank account with e banking facility enabled on it. You can transfer funds to others account from the comfort of your home. There is no need of going to your bank to get transfers done. You can make all payments and transfers yourself. This is a very convenient way to go cashless in India as well.
- 5) Aadhaar Card – **Aadhaar Card enabled payment system** allows a person to pay using his aadhaar card if it is linked to his bank account. Once you link your aadhaar card to your bank, you can make payments using your finger prints.

Figure :1

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Electronic Payment Systems - Representative Data (Updated as on December 19, 2016)																						
Volume in million, Value in Rs. billion																						
Data for the period	RTGS		NEFT		CTS*		IMPS*		NACH*		UPI*		USSD**		Debit and Credit Cards at POS <sup>§</sup>		PPI <sup>#</sup>		Mobile Banking		Total	
	volume	value	volume	value	volume	value	volume	value	volume	value	volume	value	volume (in thousand)	value (in Rs. thousand)	volume	value	volume	value	volume	value	volume	value
Nov-16	7.9	78479.2	123.0	8807.8	87.1	5419.2	36.2	324.8	152.5	606.6	0.3	0.9	7.0	7302.6	205.5	352.4	59.0	13.2	72.3	1244.9	671.5	94004.2
Dec-16																						
1	0.3	3781.0	10.4	564.6	4.6	288.8	1.8	18.2	11.6	55.7	0.0	0.1	1.0	943.4	8.6	14.6	2.5	0.6	2.8	49.3	39.9	4723.5
2	0.3	3784.7	7.7	466.6	4.4	265.9	1.7	16.4	9.4	14.5	0.0	0.1	1.2	1349.9	8.9	15.3	2.6	0.6	2.6	89.1	35.1	4564.1
3	0.3	706.0	6.4	272.9	4.7	231.4	1.7	15.0	6.2	15.3	0.0	0.1	1.4	1413.9	10.0	17.4	2.7	0.6	2.6	26.3	32.0	1258.6
4	h	h	h	h	h	h	1.2	9.0	h	h	0.0	0.1	1.1	1198.2	9.9	15.3	2.5	0.6	2.0	11.5	13.6	24.9
5	0.3	3552.4	7.0	459.2	4.9	247.2	1.9	16.5	15.0	64.0	0.0	0.1	0.9	1076.3	10.5	17.5	2.7	0.6	2.5	43.8	42.4	4357.4
6	0.3	3630.4	6.0	350.1	4.6	222.7	1.7	14.0	18.2	21.1	0.0	0.1	0.8	943.3	9.2	16.0	2.6	0.6	2.5	71.9	42.6	4254.9
7	0.3	3300.7	7.2	399.0	5.2	256.8	1.8	15.5	13.5	32.0	0.0	0.2	1.3	1358.0	9.8	17.2	2.7	0.7	2.6	44.3	40.5	4021.9
8	0.3	3151.8	6.9	417.1	5.1	256.6	1.8	15.4	6.0	29.9	0.1	0.1	1.8	1740.3	6.5	12.0	2.5	0.6	2.5	40.2	29.2	3883.5
9	0.4	4329.5	7.1	473.6	4.8	277.5	1.8	15.3	6.0	17.3	0.1	0.2	2.5	2220.7	10.1	17.0	2.7	0.7	2.3	48.5	33.0	5131.1
10	h	h	h	h	h	h	1.5	11.6	h	h	0.0	0.1	1.4	1509.0	10.0	16.6	2.7	0.7	1.9	12.5	14.3	29.0
11	h	h	h	h	h	h	1.0	6.5	h	h	0.0	0.1	1.5	1355.6	9.5	13.8	2.7	0.7	1.8	9.2	13.3	21.1
12	0.2	297.2	5.3	230.5	2.4	134.0	1.4	11.2	14.0	46.5	0.1	0.2	2.2	1820.6	11.4	19.1	2.8	0.7	2.1	17.5	37.4	739.1
13	0.4	3684.4	6.4	488.7	5.6	294.6	1.8	13.9	5.5	13.6	0.1	0.2	2.4	2388.2	9.9	15.3	2.8	0.7	2.2	47.5	32.5	4511.5
14	0.4	3818.4	6.7	487.7	6.5	320.8	1.9	15.5	4.9	23.1	0.1	0.3	1.9	2200.4	9.6	15.4	2.9	0.7	2.3	45.0	33.1	4682.0
15	0.4	4419.4	6.0	495.3	6.1	292.2	1.9	15.6	6.0	47.2	0.1	0.3	2.3	2553.7	9.5	15.5	2.6	0.7	2.4	45.8	32.5	5286.2
16	0.4	3213.2	5.8	415.2	6.0	297.2	1.9	15.0	4.5	13.7	0.1	0.3	3.4	3432.9	6.0	11.0	3.1	0.8	2.3	79.1	27.8	3966.3
17	0.3	707.0	4.9	250.1	5.3	252.4	1.7	13.2	5.6	8.5	0.1	0.3	3.6	3879.1	6.5	12.9	3.0	0.8	2.3	24.2	27.3	1245.0
18	h	h	h	h	h	h	1.1	6.6	h	h	0.1	0.1	3.4	3439.4			2.8	0.7	1.7	7.4	4.0	7.4

Source : NPCI

National Payments Corporation of India (NPCI) is pleased to announce that there has been an impressive surge in the usage of cards at Point of Sale (PoS) terminals at shops and other retail outlets. During (November 9 and 10, 2016), Cards usage on PoS / e-Commerce was around 8 lakh transactions a day compared with a daily average of 4 lakh transactions earlier. The value of transactions almost doubled.

Mr. A. P. Hota, MD & CEO, NPCI said, "It is heartening to witness a good number of first time users at PoS terminals. Using the PoS is even simpler than using on ATM. When there are restrictions on withdrawal of cash in the aftermath of demonetisation of notes, usage of payment cards at PoS for all day-to-day purchases is the ideal way to transact."

Immediate Payment Service (IMPS) and Unified Payments Interface (UPI) usage has doubled. IMPS and UPI are 24x7 remittance service. India has 14 lakh PoS terminals and all the terminals accept all brands of debit and credit cards.

## V. CONCLUSION

The cashless transaction system is reaching its growth day by day , as soon as the market become globalised 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 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 cashless transaction system.

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