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“Effects of Demonetization on Prepaid Instrument India”

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Abstract: For every Economy, money is its vital force. Money arises when the unlimited wants and needs of people are not met by the barter system and at the same time something which can satisfies the "double consent of wants". On 8 November 2016, around 8pm, the Indian Prime Minister announced a demonstration. As of 9 November 2016, the Five hundred and One thousand rupee notes were invalid, with the exception of some basic services. The aim of demonetization is to get rid of black money, eliminate counterfeit banknotes, stop money laundering, and make India a tax compliant country. In addition to these immediate and primary goals, the focus is on promoting cashless transactions. Non-cash transactions with credit and debit cards, online payment portals, and digital portfolios for financial transactions. The aim of this analysis is to examine the effects of demonetization on digital payment systems, especially private prepaid instruments that grew aggressively during the demonetization period, and to identify the various factors responsible for supporting their growth.

Index Terms - Demonetization, Prepaid Instruments, Digital Payment System

I. INTRODUCTION

As early as 1946, 1,000 and 10,000 denominations of bank notes had been demonised to remove unrecorded currency. In 1954, the 1,000, 5,000, and 10,000 denominations were reintroduced and again displayed in January 1978. After about 36 years, on 8 November 2016, Mr. Narendra Das Modi, the Prime Minister of India, made a historic declaration, Where the higher denominations of the currency 500 rupee and 1000 rupee notes were void except for some basic service to deal with the issue of Black Money, to curb Corruption, to break off the network of high denomination notes used for terrorist funding and to make India a tax-compliant country, the laymen faced serious problems in hospitals with old currencies, The wage earners faced the problem on the opening day of the month, with their wages credited to the bank account, but were only able to withdraw 2,000 rupees from the ATM machines. Many workers have gone to the bank branch to withdraw their entire salaries with a loss of pay restrictions have been placed on residents. As far as deposits and convertibility of denominations are concerned, leaving people no choice but to shift towards electronic payments and using FinTech platforms for enterprise and daily transactions. As a result of demonetization, the economy lost 1% of its GDP.

There are several unorganised sectors in India that are based entirely on the money economy. "In a historic move that will define the fight against corruption, illicit money, money laundering, terrorism and terrorism financing and record-breaking counterfeit banknotes, the Indian government has decided that five hundred thousand rupees will not be a legal tender. Midnight, 8 November 2016. The government accepted the RBI recommendation to issue two thousand rupees, and a new five hundred rupee note will also be circulated. The value of the currency withdrawn during the demonetization was almost 86%.The scope of this demonetization was much greater than previous demonetization attempts. The economic problems caused by these demonetization can be temporary and permanent. In the absence of cash, households and retailers were greatly affected by their daily transactions such as buying goods, groceries etc. But there will be changes that are useful in the long run. As well as operational challenges, a change in behaviour is expected among individuals using electronic transaction options in India to make and receive payments. This type of transition requires two behaviour changes: one the agent must move tangible means for less tangible or intangible forms, and second, they must learn to trust technologically sophisticated tools. The latter requires agents to be trained to understand transaction content. If this transition is managed well at all costs, agents may be tempted to switch to unofficial cash substitutes. The demonetization affected the retail sector in India, although card sales increased, this was less than the decline in sales. After the demonetization, prepaid orders rose 20% while cash sales on delivery fell 30%, ultimately leading to an 8% drop in retail sales.

I. Literature Review

(Ghosh, 2017). One of the aims of this article is to develop a macro-theoretical model for studying the possible effects of demonetization in India. This document confirms that such demonetization are likely to result in a cumulative decline in the level of production in both the organised and unorganised sectors. The extent to which the cumulative contraction in the rate of production will take place depends on how quickly the economy is again monetising. Remonetisation reverses the cumulative depreciation process. If remonetisation is delayed as much as possible to achieve the goal of digitisation, the reduction in production rates could become severe and cause significant damage to the masses. The demonetization affected the poorest people the most. (Parul Mahajan, 2017) The impact of demonetization on many members of the Financial Inclusion Mechanism was discussed, including ordinary people, the informal sector, rural residents, MSMEs, LKCNB, LKM, and e-banking companies. The results showed that normal people were most affected. Balaji and Balaji (2017) examined the effect of demonetization on non-cash transactions. The study shows that it has a positive effect on non-cash transactions and creates additional awareness about internet-based banking channels and the associated risks. In the Indian context, the government's bold move to demonstrate the physical currency of 500 and 1,000 rupees is a boon for digital payments that allow it to grow rapidly (Goriparthi & Tiwari, 2017). It is the government's attempt to enable the eradication of corruption and black money. Since the announcement of the demonetization on November 8, 2016, transactions via digital wallets, card payments, and other net banking transactions have increased. (Bajpai, Bieberman & Sachs, 2018). Gupta (2017) concludes his article with the following statement: "A reduction in tax rates for lower panels, a larger distribution for agriculture and the rural sector, therefore, will increase disposable income and thus liquidity in the hands of ordinary people will lead to on subsidised consumption, which over time will lead to sectoral and macroeconomic growth. In this context, the RBI's vision for payment and settlement systems in India (2018b) expects a reduction in paper-based clearing systems such as checks and an increase in the use of electronic payment system such as electronic transfers, card payments and mobile banking in India. As recent data on the RBI payment system shows, there is a growing trend in India for an increase in digital payments, especially in mobile banking transactions outside of debit cards at vending machines (Bajaj and Damodaran, 2018). However, the use of cash has continued, although the use of debit cards at ATMs has continued to increase since the demonetization.

II. RESEARCH METHODOLOGY

This article is purely conceptual, so no primary data was collected via a questionnaire or an interview schedule. Secondary data for this report comes from academic articles, government and non-government websites, books relevant magazines and newspapers etc to make research effective. The aim of this study is to assess the effect of demonetization on digital payment systems and the extent to which digital transaction systems adapt to this new world. This paper makes use of **Casual research design** at broad. Casual research design type of research is used to measure what impact a specific change will have on existing norms and assumptions. The root cause project helps understand why work is done the way it is done by showing the causal relationship between variables and eliminating other possible factors. As the meaning of causal research is to identify the relationship between a cause and effect. The changes in the independent variable are measured through to the variation that take place in the dependent variable. Having this knowledge helps to take necessary actions to fix the problems or to optimise the outcomes. In causal research, the Matter/topics are selected through a systematic procedure. This methodology is considered among the best methodologies to study the cause and effect relationship and is suited the most appropriate for the research on Effects of Demonetization on Prepaid Instruments. In the research, 3 essential dependent variables are selected that most probably influences the performance and effects of demonetization in India. The Indian economy has made significant changes to a ban on high-denomination banknotes, which were valued at 87 percent of the total currency in November 2016. The dependent variables are Social impact, Political impact and Economic impact. These selected dependent variables are the possible factors that might influence in tracking the growth prepaid industries during demonetisation.

Data and Sources of Data

Secondary data is the source of data used for the particular research. Secondary data is data that has been collected from primary sources and is available for study. This is a type of data that has been already collected in the past. Secondary data sources include books, personal sources, magazines, newspapers, websites, government documents, and others. It is known that secondary data are readily available compared to primary data. It takes a little research and effort to use these sources. Two sources of secondary data JOURNALS and PUBLISHED sources were used during the research. The authenticity of the data generated from these sources depends majorly on the author and publishing firm. Published sources may be printed or electronic as the case. They may be paid or open depending on the writer and publishing company's decision. Journals now-a-days generally becoming more important than books as these days focus has shifted to data collection. The main reason behind this is because journals are updated on regular basis with new publications, therefore giving updated information. In addition, journals tend to be more specific when it comes to research. Published sources and journals both collected from various E-platforms. Secondary data has its cons, which may affect the outcome of the research negatively and also some advantages over primary data. It all depends on the situation, the research question and the kind of research being carried out.

Theoretical framework

Variables in the research, 3 essential dependent variables are selected that most probably influences the performance and effects of demonetization in India. The Indian economy has made significant changes to a ban on high-denomination banknotes, which were valued at 87 percent of the total currency in November 2016. The dependent variables are Social impact, Political impact and Economic impact. These selected dependent variables are the possible factors that might influence in tracking the growth prepaid industries during demonetisation.

Dependent variables :

Social Impact – People were drastically impacted due to the demonetization as they were left with no other alternative than getting currency exchanged from their respective banks. Demonetization indirectly impacted the Health sector and Education sector, where the administration refused to accept the demonetised currencies which lead the common men into a great ruction. At last marriages which were taking place during the period were terrifically impacted as the cash transaction issue. Businesses and Salaried people were too greatly affected due the demonetization.

Political Impact - The political impact of the Demonetization was seen across the whole country, where majority of the literate crowd supported the demonetization. The speeches against black money made by the honourable Prime Minister Modi were drawing huge crowds turning into vote and support for BJP from the literate mass and especially from the youth for the bold step taken to curb black money and stop terror funding. However, the opposition was against the demonstration, and Dr Manmohan Singh, the former prime minister, said the move was illegal and against democracy., this statement came out during Rajya Sabha in the presence of Mr. Narendra Modi, Prime minister of India. Dr Manmohan Singh added that there is no place in the world that can only withdraw 2,000 rupees from their account. Opposition parties strongly oppose the demonetization implementation in India.

Economic Impact - Demonetization is viewed as a measure of curb black money. RBI plays the vital role in this demonetization drive. This act of demonetization will help banks get back some bad loans and improve their financial situation. Demonetization made most of the transactions to be done through the formal banking sector. This had increased the transparency with people and corporate paying tax properly. The Income Tax Department reports that only 4% of people pay income tax, while that amount should be increased to 28%. The demonetization had helped to achieve this target of the Income tax department.

Research Design of this paper makes use of **Casual research design** at broad. Casual research design type of research is used to measure what impact a specific change will have on existing norms and assumptions. The root cause project helps understand why work is done the way it is done by showing the causal relationship between variables and eliminating other possible factors.. As the meaning of causal research is to identify the relationship between a cause and effect. The changes in the independent variable are measured through to the variation that take place in the dependent variable. Having this knowledge helps to take necessary actions to fix the problems or to optimise the outcomes. In causal research, the Matter/topics are selected through a systematic procedure. This methodology is considered among the best methodologies to study the cause and effect relationship and is suited the most appropriate for the research on Effects of Demonetization on Prepaid Instruments.

Cross sectional data type is analysing the dataset at fixed point of time “the demonetization phase” and considering factors such as social, political and economic for the analysis. Therefore, it is clear from the time period and factors mentioned that research is using Cross sectional data type and is the one who’s characteristics wholly matches with the factors to be analysed.

DATA ANALYSIS & INTERPRETATION

Prepaid Instruments in India

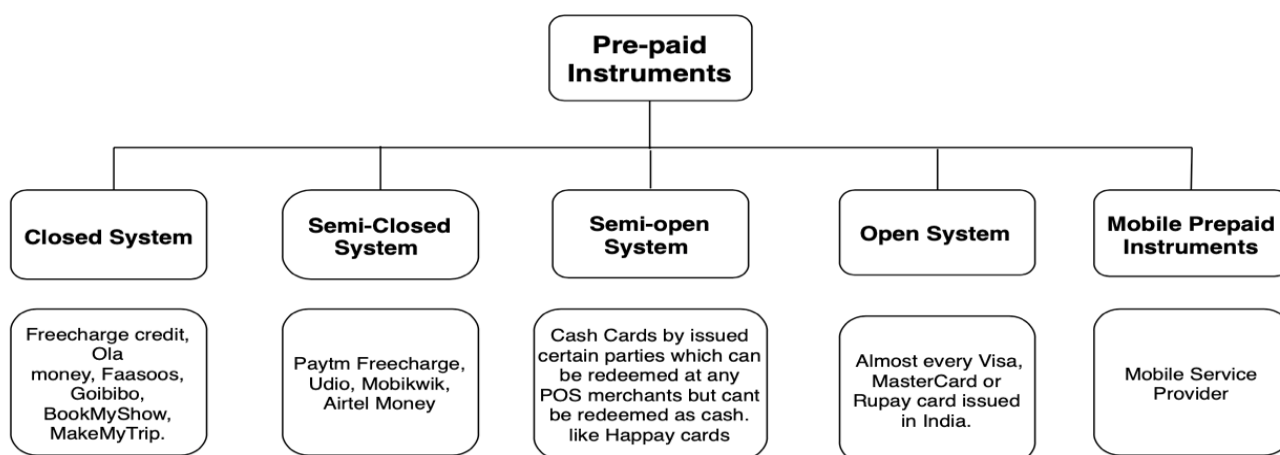
Prepaid payment instruments are methods that allow goods and services to be purchased against the value deposited on such instruments. The sum deposited on such instruments is the amount charged to the issuer's bank account by cash, debit or credit card

Classification of Payment Instruments in India

RBI has broadly classified the PPIs into three categories

Closed System Payment Instruments: It is a means of payment provided by a company to facilitate the purchase of goods and services from that company. Redemption or exchange is not permitted via this instrument because this instrument does not allow payments and settlements for third party services. They are not specified as a payment structure for the issuance and execution of the instrument. Therefore, its issuance does not require RBI approval. They are provided for in-store domestic products and services and sweetened with bonus points and refunds to ensure customer loyalty. For example. Most online shopping / web portals - Make My Trip, Flipkart, Jabong and others. They maintain a portfolio for their clients. This category also includes prepaid cards from cell phone companies.

Semi-Closed System Payment Instruments: It is a payment instrument that can be used to purchase goods and services, including financial services, in a group of clearly defined branches / locations and has a formal contract with the issuer to receive payment instruments. Up to Rs 10,000 / - can be made in this category by accepting minimum customer details provided the amount payable does not exceed Rs. 10,000 / - and the total top-up value for any given month also does not exceed Rs. 10,000 / -. Such an instrument does not allow the holder to withdraw or buy back money. By adopting "legally valid" documents that comply with anti-money laundering laws, PPI can earn up to Rs 50,000. Such an IPA cannot inherently charge a fee. both of the above can only be published in electronic form; Amounts up to Rs. 1,00,000 / - can be generated and loaded using KYC (Know Your Customer) standards.



Source: RBI Database

Open System Payment Instruments: It is a payment device that can be used to purchase goods and services, including financial services such as transferring funds to cards, receiving commercial locations [POS outlets] and enabling ATMs / Correspondent Banks (BC) to withdraw cash. However, cash withdrawals at POS are only allowed up to a limit of Rs 1000 / - per day with the same conditions as before for debit cards (for cash withdrawals at POS).

Semi - open System Payment Instruments: It is a payment instrument that can be used to purchase goods and services at all card trading points (POS terminals). This tool does not allow withdrawals or withdrawals of funds from their holders.

Mobile prepaid Payment Instruments: This is a prepaid call timing tool issued by mobile operators. This call time value can also be used to purchase value-added services from wireless carriers or third party providers.

DATA ANALYSIS

As per the RBI, during the 2019-20 period, with 44.1 percent volume growth and 55.8 percent growth in the preceding year, RTGS experienced strong growth. It grew by 5.4 percent in value terms to the highest level of 14.2 percent in the previous year, mainly due to lower growth from the major value system, namely the real-time gross billing system (RTGS). During 2019-20, the proportion of digital purchases in the overall amount of non-

cash retail payments rose to 97.0% from 95.4% in the previous year. The prolonged lockout period resulting from the COVID-19 pandemic, however, resulted in sluggish economic growth and lower disposable payments, leading to a decline in digital purchases. In the electronic payment regime under the SBSRV, their temporary decreased 3.3 percent to 1,331.6 crores, they increased 10.3 percent. The decline compared to the previous year was mainly caused by A reduction in high-quality market revenue as well as a reduction in economic activity percentage from year to year, mainly due to decline large-value company acquisitions are in line with declining economic activity. RTGS facilities are available for 1.53,605 branches 218 banks at the end of March 2020. Transfer throughout the year in National Electronic fund transfer system (NEFT) increased by 18.3%.The NEFT system is available in 1,53,687 branches 217 banks at the end of March 2020In 2019-20, the number of credit and debit card purchases increased by 23.5% and 16.1%, respectively. While volumes increased 21.1% and 35.6% to "7.3 lakh crore" and "8.0 lakh crore". The number of prepaid payment instruments (IPA) increased by 15.7% compared to the previous year 33.2% and the number of transactions to 33.2%."Slightly more expensive than 1.0 percent" at 2.2 crore. The reception infrastructure improved significantly, the number of terminal outlets (PoS) increased by 38.2% to 51.4 lacquer, and by the end of March 2020 the number of Bharat QR codes had increased by 74.6% by 20.27 paints. At the same time, the number of ATMs also increased from 2.22 to 2.34.

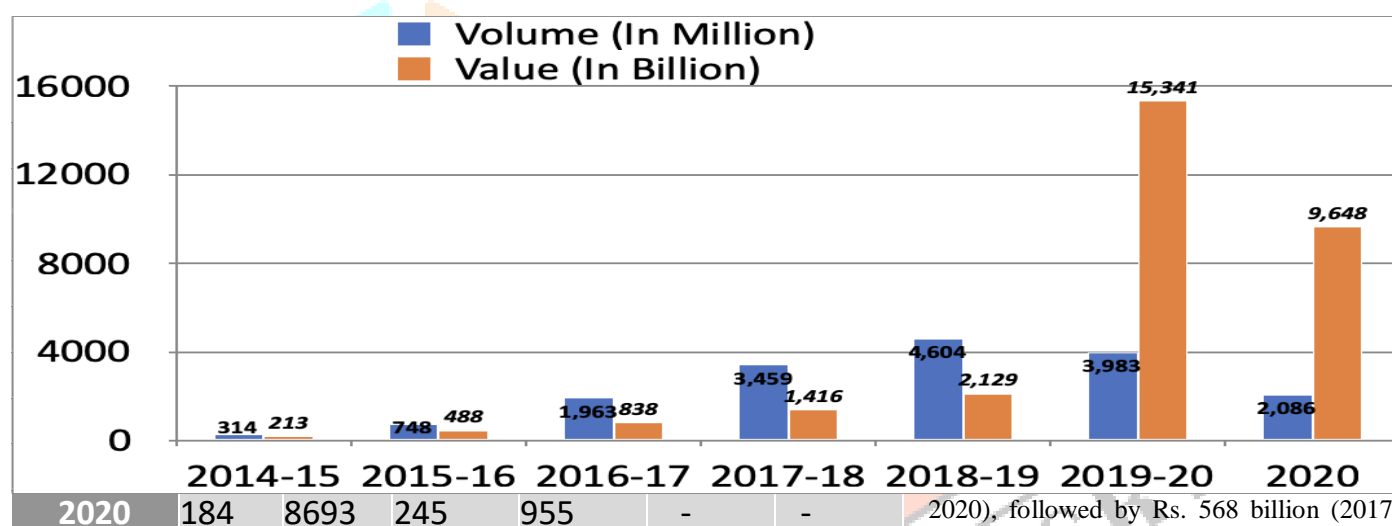
Year	Volume (In Million)	Value (In Billion)
2014-2015	314	213
2015-2016	748	488
2016-2017	1963	838
2017-2018	3459	1416
2018-2019	4604	2129
2019-2020	3983	15341
2020	2086	9648

Source: RBI Bulletin

A detailed explanation of the volume and value of PPI can be seen in Table for the 2014-2019 to 2019-20 fiscal years. As can be seen from the table, annual portfolio transactions totalled 604 million in the 2015/16 fiscal year and reached a value of 4028 million in 2018/19. In terms of value, the portfolio grew significantly from Rs. 82 billion (2014-15) to Rs. 520 billion (2016-17). Apparently, transactions in the market value of M's portfolio in India increased 211% at CAGR in 2016-17 and reached 317% in 2018-19 which is expected to reach around Rs. 375 trillion by 2023. Following the demonstration, the RBI completed several prerequisites for free M-wallet transactions by issuing a portfolio of Rs. 10,000 to Rs. 20,000 and also received from Rs. 50,000 transactions per month from portfolio to their bank. Hence, from denomination to the present, there has been an upward trend in terms of portfolio transaction value and volume.

Source: Based on RBI Bulletin

A similar trend is seen in prepaid cards, where the volume of prepaid card transactions was 209 million in 2016-17, resulting in 465 million transactions in 2018-19. Card transaction value increased in 2019-20 with Rs. 2230 billion in transactions (until March



billion in (2014-15)). This surge was due to the corona virus pandemic, which encouraged non-cash transactions. Other affected instruments (paper or gift cards) did not use zeros in March and April 2020, and slow growth was also reported after the denomination period. In general, the volume and value of prepaid wallets and prepaid card payments increased significantly, but the number of paper vouchers increased only slightly. Wallet shows maximum usage compared to prepaid cards and others. However, the lockdowns are slowing down growth prospects, but the digital regime allows it to see the biggest increase month over month. Compared to the demonstration period, the volume and value of IPA increased during the COVID 19 period with Google Pay, Phone Pay and Wallet. When the RBI enabled the interoperability of prepaid payments in the form of portfolios through UPI (Integrated Payment Infrastructure), prepaid payments experienced high growth. UPI saw a strong growth of 197 percent with 1,236 million transactions valued at Rs. 241 billion as of June 28, 2020. The above mentioned figures very clearly state that , Prepaid Instrument grew aggressively during and after the demonetization period as the people were left with no alternate option to shift on. With the government's push to turn India into a digital economy, demonstrations of the consumer base via e-wallets or e-wallets have increased significantly. The need for alternative payment systems has also had a positive impact on the e-wallet market as it has been seen with the emergence of new e-wallet companies and growing market potential, competition has increased both inside and outside the market. In order to keep advancing in this market and ensure their customer base is secure, e-wallet companies are developing various strategies, including financial and technological benefits.

Conclusion

"If you expect an honest government to be free from corruption and harassment, you must also be honest. Honesty is not a one-way street," said Prime Minister Sri Narendra Modi. Demonetization is a corrective action to reduce unrecorded money and counterfeit bills. Clearly demonetization has had a very strong and significant impact on non-cash transactions in India. In fact, this has brought a new phase in the way transactions are carried out especially in a cash based economy. The growth of the non-cash transaction system reached new heights. People tend to turn to cashless transactions. It can be said that the cashless system is not only a necessity but also a community need. On the other hand, the risk of cybercrime is much higher because almost all non-cash transactions are processed via the Internet. People need to be aware and fully aware of this to safeguard their debit and credit cards and use internet banking and digital wallets in the safest possible way. To punish cyber criminals, a well-structured cyber police force must be created with highly forensic laboratories and technology. The Digital India Campaign aims to promote a digital payment system and a cashless economy. However, the real impact of digital payments only materialised after the demonstrations. Due to

demonetization, digital payments are mandatory as an alternative monetary system, and after demonetization, digital payments have also increased steadily. We have found that, according to the NPCI, not only all digital payments, but also in all individual modes digital payment. Demonetization has transformed the people of India with so many barriers. India's people have faced too many disturbances through the demonetization force; they have faced queue attempts at the banks and the ATM 'S to deposit and return currency. People of India faced problems due to a lack of cash liquidity with lower goods spending. Any firms faced too many challenges due to a shortcoming in liquidity. When the government made the bold decision on demonetization in India , the government did not realise that this sort of challenge would be faced by Indians for a long time. But for occasion, the government has provided the people of India with too many remedies. The fact that cashless exchanges will in future become the default of payment was also recognised. The effect of demonetization on the general population is positive and negative. In any event, the brief time period is evidently adversely influenced by tremendous changes by the demonetization administration of India.

MANAGERIAL IMPLICATION

Technology absorption factors and adoption barriers are identified in this study, especially for developing countries such as India. There are several research studies that draw on high-quality field data on mobile payment usage, challenges consumers face, and how they continue to use or leave technology. Government regulations in India have enabled and established mobile payment options. Our research suggests that factors such as uncertainty avoidance and traditional use of money play an important role in adoption. Regulations issued by governments must ensure that they can overcome these contextual boundaries. For example, people who rely on cash can make digital payment decisions when they can rely on hassle-free transactions, government security, and confidence in dispute resolution and fraud. Public guidelines and dissemination of information by government and private providers can provide such guidelines for increased usability. The design of a mobile payment solution can benefit from considering the contextual factors identified in this context. For example, because cash transactions have been traditionally preferred, the motivation for using digital payments could be due to the economic benefits of using them. Several wallet providers have included discounts and cashbacks in their product promotion solutions.

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