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Demonetisation and Indian Economy

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Abstract : The RBI and the Government are making several efforts to reduce the use of cash in the economy by promoting the digital payment devices including prepaid instruments and cards. RBI's effort to encourage these new varieties of payment and settlement facilities aims to achieve the goal of a 'less cash' society. Here, the term less cash society and cashless transaction economy indicate the same thing of reducing cash transactions and settlement rather doing transactions digitally.

Cashless transaction economy doesn't mean shortage of cash rather it indicates a culture of people settling transactions digitally. In a modern economy, money moves electronically. Hence the spread of digital payment culture along with the expansion of infrastructure facilities is needed to achieve the goal.

Even the RBI has also recently unveiled a document —“Payments and Settlement Systems: Vision 2018”— setting out a plan to encourage electronic payments and to enable India to move towards a cashless society or economy in the medium and long term.

IndexTerms - Demonetisation, Financial Inclusion, Online Payment.

I. Introduction: Cashless Transaction Economy

The RBI and the Government are making several efforts to reduce the use of cash in the economy by promoting the digital/payment devices including prepaid instruments and cards. RBI's effort to encourage these new varieties of payment and settlement facilities aims to achieve the goal of a 'less cash' society. Here, the term less cash society and cashless transaction economy indicate the same thing of reducing cash transactions and settlement rather doing transactions digitally.

Cashless transaction economy doesn't mean shortage of cash rather it indicates a culture of people settling transactions digitally. In a modern economy, money moves electronically. Hence the spread of digital payment culture along with the expansion of infrastructure facilities is needed to achieve the goal.

On November 8th, government withdrawn Rs 500 and Rs 1000 notes- two highest denominations in circulation. Main objectives were to fight counterfeit money and black money. The action has given tremendous boost to cashless transactions as card based and digital payments were not hindered when all high denomination cash transactions suffered because of absence of high denomination currencies.

Indore continues to be driven by the use of cash; less than 5% of all payments happen electronically however the chief minister, in 2016 speech, talked about the idea of making Indore a cashless city, with the aim of curbing the flow of black money.

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What is a cashless economy?

1. A cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal.
2. People uses too much cash for transactions. The ratio of cash to gross domestic product is one of the highest in the world— 12.42% in 2014, compared with 9.47% in China or 4% in Brazil.
3. Less than 5% of all payments happen electronically
4. The number of currency notes in circulation is also far higher than in other large economies. *.Some studies show that cash dominates even in malls, which are visited by people who are likely to have credit cards, so it is no surprise that cash dominates in other markets as well.

Benefits of Cashless transaction

1. Reduced instances of tax avoidance because it is financial institutions based economy where transaction trails are left.
2. It will curb generation of black money
3. Will reduce real estate prices because of curbs on black money as most of black money is invested in Real estate prices which inflates the prices of Real estate markets
4. In Financial year 2015, RBI spent Rs. 27 billion on just the activity of currency issuance and management. This could be avoided if we become cashless society.
5. It will pave way for universal availability of banking services to all as no physical infrastructure is needed other than digital.
6. There will be greater efficiency in welfare programmes as money is wired directly into the accounts of recipients. Thus once money is transferred directly into a beneficiary's bank account, the entire process becomes transparent. Payments can be easily traced and collected, and corruption will automatically drop, so people will no longer have to pay to collect what is rightfully theirs.
7. There will be efficiency gains as transaction costs across the economy should also come down.
8. 1 in 7 notes is supposed to be fake, which has a huge negative impact on economy, by going cashless, that can be avoided.
9. Hygiene– Soiled, tobacco stained notes full of germs are a norm in Indore. There are many such incidents in our life where we knowingly or unknowingly give and take germs in the form of rupee notes. This could be avoided if we move towards Cashless economy.
10. In a cashless transaction there will be no problem of soiled notes or counterfeit currency
11. Reduced costs of operating ATMs.
12. Speed and satisfaction of operations for customers, no delays and queues, no interactions with bank staff required.
13. A Moody's report pegged the impact of electronic transactions to 0.8% increase in GDP for emerging markets and 0.3% increase for developed markets because of increased velocity of money

An increased use of credit cards instead of cash would primarily enable a more detailed record of all the transactions which take place in the society, allowing more transparency in business operations and money transfers.

This will eventually have the following chain effect:

1. Improvement in credit access and financial inclusion, which will benefit the growth of SMEs in the medium/long run.
2. Reduce tax avoidance and money laundering thanks to the higher traceability of all the transactions.
3. The increased use of credit cards will definitely reduce the amount of cash that people will carry and as a consequence, reduce the risk and the cost associated with that.

Challenges in making Indore a cashless city:

1. Availability of internet connection and financial literacy.
2. Though bank accounts have been opened through Jan DhanYojana, most of them are lying unoperational. Unless people start operating bank accounts cashless economy is not possible.
3. There is also vested interest in not moving towards cashless economy.
4. Indore is dominated by small retailers. They don't have enough resources to invest in electronic payment infrastructure.
5. The perception of consumers also sometimes acts a barrier. The benefit of cashless transactions is not evident to even those who have credit cards. Cash, on the other hand, is perceived to be the fastest way of transacting for 82% of credit card users. It is universally believed that having cash helps you negotiate better.
6. Most card and cash users fear that they will be charged more if they use cards. Further, non-users of credit cards are not aware of the benefits of credit cards.
7. Banks are making it difficult for digital wallets issued by private sector companies to be used on the respective bank websites. It could be restrictions on using bank accounts to refill digital wallets or a lack of access to payment gateways. Regulators will have to take a tough stand against such rent-seeking behaviour by the banks.

Steps taken by RBI and Government to discourage use of cash

1. Licensing of Payment banks
2. Government is also promoting mobile wallets. Mobile wallet allows users to instantly send money, pay bills, and recharge mobiles, book movie tickets, and send physical and e-gifts both online and offline. Recently, the RBI had issued certain guidelines that allow the users to increase their limit to Rs 1,00,000 based on a certain KYC verification
3. Promotion of e-commerce by liberalizing the FDI norms for this sector.
4. Government has also launched UPI which will make Electronic transaction much simpler and faster.
5. Government has also withdrawn surcharge, service charge on cards and digital payments

What else needs to be done?

1. Open Bank accounts and ensure they are operationalized.
2. Abolishment of government fees on credit card transactions; reduction of interchange fee on card transactions; increase in taxes on ATM withdrawals.
3. Tax rebates for consumers and for merchants who adopt electronic payments.
4. Making Electronic payment infrastructure completely safe and secure so that incidents of Cybercrimes could be minimized and people develop faith in electronic payment system.
5. Create a culture of saving and faith in financial system among the rural poor.
6. The Reserve Bank of India too will have to come to terms with a few issues, from figuring out what digital payments across borders means for its capital controls to how the new modes of payment affect key monetary variables such as the velocity of money.
7. The regulators also need to keep a sharp eye on any potential restrictive practices that banks may indulge in to maintain their current dominance over the lucrative payments business.

Though it will take time for moving towards a complete cashless economy, efforts should be made to convert urban areas as cashless areas. As 70% of Indore citizens comes from urban areas if government can convert that into cashless it will be a huge gain. Therefore different trajectories need to be planned for migration to cashless for those having bank account and for those not having.

II. Literature Review

An Article by Next Level–Education Anamitra Dasgupta

It will take time and great effort, as well as determination and perseverance on Indore's part to convert itself into a completely cashless city. In this, effort has to be made to convert urban areas as cashless areas. If the government manages to convert urban areas into cashless regions, it would constitute as a huge gain. We conclude that different issues need to be addressed simultaneously and different routes needed to plan the migration of cash to a Cashless Economy – bridging the gap between those that have bank accounts and those that haven't.

The MP Government has launched the Digital Dakia scheme where student volunteers go door to door and explain the process and benefits of cashless transactions to the common people. The volunteers will be given identity cards to identify themselves as Digital Dakias. Indore is the first city where the scheme is introduced, and there are plans to spread the movement to more places in the state.

The scheme was introduced by the MP State Finance Minister Jayant Mallya. "Dakia" means postman, and the Digital Postmen uses students to increase awareness of cashless transactions especially among the women and the elderly. Apart from door to door visits, the Digital Dakias will also hold cashless transaction awareness sessions in public places around Indore. The Digital Dakia scheme is similar to the sathi program Internet launched by Google and Tata Trusts to expand digital literacy in rural areas.

The main roadblock for such awareness programs is the availability of devices. The women and the elderly, in particular tend to use devices belong to young male members of the family. Without a device to practice on, these users tend to forget whatever they have learnt from volunteers. Spotty connectivity and internet available mostly through 2G services in rural areas are other major problems faced by grass root level digital literacy programs.

The Digital Dakias were present in the DigiDhanMela organised at Indore. DigiDhanMela is a countrywide initiative by NitiAayog, where the various facilities for cashless transactions is introduced to the common public. Attendees at the camps are made familiar with the various modes of cashless transactions available. The Bharat Interface for Money (BHIM) app and the Aadhaar linked merchant pay app for cashless transactions without a plastic card or smartphone, and through a fingerprint scanner were introduced at DigiDhanmelas.

Awasthi advocates cashless transaction, Posted in Co-op News Snippet son November 30, 2016 by Rohit Gupta

Elaborating on the usefulness of doing cashless transaction IFFCO MD Dr. U S Awasthi asked the farmers of Indore and Ujjain to adopt Kisan Credit Card and other means of cashless transaction so that the dream of Prime Minister could be achieved. Indore was his 9th destination after Hosangabad and Jabalpur. Here he inaugurated a cooperative cold storage. "Today at the beginning of visit inaugurated a Cooperative Cold Storage in Indore. Operated by cooperative", IFFCO MD wrote on twitter wall.

Addressing a gathering of about 2000 farmers, talking to farmers of Indore, Awasthi urged them to avoid use of cash. A stall had been setup to educate farmers about the benefits of cashless transactions through live demonstrations.

In both Ujjain and Indore he asked farmers to adopt cashless transaction and said Kisan credit card will go a long way in solving cash problem. Readers would recall IFFCO is pitching in a big way helping farmers to learn how to do cashless transactions.

Indore: DAVV starts training staff for cashless transactions

Devi Ahilya Vishwavidyalaya (DAVV) in association with State Bank of India has started a series of training programmes under which teaching and non-teaching staff of the university would be taught 'cashless transactions'.

A group of nearly 60 teachers of the university were given training on how to do cashless transactions. Vice chancellor Dr Narendra Dhakad informed the participants that the DAVV would soon be going cashless and called upon them also to opt for cashless transactions.

The DAVV move to go cashless comes close on the heels of the University Grants Commission (UGC)'s directives for the same.

In a letter addressed to vice chancellors, UGC secretary Jaspal S Sandhu had recently said: "With the aim of bringing accountability, transparency and to make transfer of grants seamless and easy to the universities, colleges and other stakeholders like students, fellows and researchers, the UGC had introduced the disbursement of grants through the Public Financial Management System (PFMS)."

In view of ensuring timely disposal of fellowships and scholarships to the fellows and scholars, the UGC has been vigorously following the policy of disposal of fellowships and scholarships through the Direct Benefit Transfer (DBT) mode which also uses the PFMS platform.

This quantum shift in the method of disposal of grants and transactions in the UGC has virtually made the payments cashless and has also decreased the interface between the stakeholders and the employees of this organization, thus, bringing in propriety.

The UGC has not asked the universities and the colleges that for the grants given by it to them, they may adopt the policy of transactions for utilization of grants through bank transfers, credit/debit cards & cheques and in rare cases drafts or cash transfers may be undertaken..

Petrol pumps, small traders vie for PoS machines

To combat cash crisis following currency ban, efforts would be made to make business cashless. Swipe machines or PoS would be installed in over 110 petrol pumps and small shops for cashless transactions.

Shortage of cash and dispensation of Rs 2,000 notes only from the ATMs has created such a situation where people are forced to make payments through cashless-mode only. Business establishments and the local administration are asking people and traders to promote cashless transaction.

Ramesh Khandelwal, president of Ahilya Chamber of Commerce and Industry, said: "At present we are sensitising traders about the importance of cashless transaction and advising them to go for transactions through credit and debit card."

Ahilya Chamber is an apex body of different business organisations and it looks after over 60,000 traders of Indore besides 20,000 retailers.

Khandelwal further said that they were also planning to equip more and more traders with swipe machines to accept payments. Talks are on with certain banks to provide Point of Sale (PoS) machines to them.

Petrol pumps located in the district have also set a target of one month to equip themselves with PoS machines to accept payments or through Paytm.

Sources from Petroleum Dealers Association of Indore said that there were 110 pumps in the district and out of them over 80% pumps were accepting payments through debit-credit cards. The remaining 20% pumps would be equipped with these machines within a month. So talks are on with banks to provide POS machines.

The pumps would also start accepting payments through Paytm. Most pumps in the city have applied for Paytm and even submitted documents for mobile wallet company.

Discount on payments through cards

On the Centre's announcement of giving 0.75% discounts for payments for petrol-diesel through debit-credit cards, sources said that they would offer bill of actual payments only. The discounts will be given by the banks or the payment network agency.

Teach cashless transactions to illiterate, Governor to pupils

Calling upon students to be socially sensitive, Governor and Chancellor of state universities Om Prakash Kohli said that educated youth would be discharging their social responsibility if they teach cashless transactions to people who are not acquainted with this technology.

"In these times of cash crunch, the Prime Minister has asked literate youth to take resolution that each one of them would teach cashless transactions to at least 10 people. This is a social responsibility. If one person teaches cashless transaction to non-technology savvy people, then he is discharging his social responsibility," Kohli said while addressing the convocation ceremony of the (DAVV) at university auditorium.

Promotion of cashless transaction is must

As cashless transactions will increase in trading and dealings, corruption will be reduced automatically.

As the number of mobile transaction are rising, this will not be difficult to achieve. However, Master Card is continuously striving hard to promote cashless transaction in society. Recently, it has entered into a partnership with Confederation of All India Traders (CAIT), said Ravi Arora.

He said that MasterCard's primary vision was to promote cashless society and the company had been striving hard to champion this cause in India, which has been traditionally a cash intensive economy with less than five percent digital transactions taking place.

Last year MasterCard underwent a partnership with Confederation of All India Traders (CAIT). This has been a significant move to help small and off-line Indian traders to grow and actively support a less-cash based society. We are remains steadfast in our commitment to further cause of a cashless society through increasing acceptance of electronic and digital payments. This in turn mitigates costs associated with cash while doing business and promotes inclusive growth and development.

Indoreans raise concern over cybercrime in cashless economy

After demonetisation of currency notes on November 8, government's campaign to motivate people to go cashless and make online payments through e-wallets or plastic money has increased fear of cyber fraud.

Not only cyber experts, many other people, especially students believe that digital transactions will increase online and ATM frauds and the government didn't have strong cyber security mechanism to control the crime.

Amit Srinivas, a student of computer science, said, "Government should strengthen the laws under IT Act and those related to online fraud before promoting cashless economy. Most people are not even aware of online transactions and they easily fall prey to cyber thieves."

"The government should spread awareness before imposing cashless transactions," another student Anurag Kumar said. "Police are unable to trace mobile thieves even after having IMEI number of the stolen phone, then how can they catch the online fraudsters," he asked.

"I haven't much news about cyber criminals' arrest as the cops are not trained and educated for the same. Along with motivating for cashless economy, the government should also train cops to deal with online financial frauds," he said.

The volume of online transaction has increased manifold after the country started moving towards 'cashless'. At the same time it also raised concern over credit and debit card cloning.

City police have already witnessed a steep rise in financial frauds over the past few years and with more users and high-value transactions, such attacks on payment gateways and digital crime will be escalated.

"Remember our country is poverty stricken and most people are ignorant about the use of computers, smart phones and internet," software engineer Rishi Dixit said.

"Our country is going digital all of a sudden and moving towards a cashless economy. It is a good move but it will result into a spurt in cybercrime. Poor and uneducated people will be easy preys. It will be difficult for them to even figure out how much money they have lost," he added.

Cyber experts said people may end up downloading fake applications for monetary transactions, they may enter wrong passwords or lose their smart phones, information from which could be misused by criminals. Many a time, personal information is also given away.

III. Objectives of the Study

The study aims at:

- To study effect of Demonetization to citizens of Indore.
- To study the awareness of Digital Payment System to citizens of Indore.

IV. Observations

1. Cash may no longer be king, the adoption of digital payment solutions is picking up at a furious pace.
2. The finding also suggests that the usage habits of those who have taken to cashless modes could be exposing them to security threats.

Convince of Digital Transactions Wins People

1. Almost every person contacted said that he/she have bank account, therefore every person is able to do cashless transaction.
2. From analysis I found out that most of the respondents were use ATM for withdraw money to 1-3 times a month, this show's that they use cash for transaction. They use to prefer cash to make payments of monthly bills.
3. People spent 20-50 % of amount through cash instead of cashless payment.
4. Most of the respondents think cashless transactions are more convenient than cash transaction, therefore it is clear that they are aware and know the advantages of digital payment system.
5. From analysis it is clear that most of the people have security threats of hacker's activity when switch to cashless transaction.
6. From the analysis the result comes out that people are ready to adopt cashless payment system instead of cash.
7. Most of the respondents installed antivirus software and malware protection on their mobile phones and laptops.

V. Limitation and Problem

Even as people adapt to newer, digital modes of payment, questions remain over the platform's operational aspects. There have been numerous reports of card transactions on PoS terminals not going through owing to connectivity or server issues. E-wallet transactions have also not been smooth, with some customers complaining their wallet balance did not reflect the correct amount transacted. The problem is a result of the sharp spike in transactions e-wallet platforms are constantly upgrading their systems to cope with the increased traffic.

Merchants are also not fully aware of the policies and regulations around accepting digital payments. This confusion exists among end users as well, who have to contend with different experiences across platforms.

Security issues

Concerns around the security of transactions and identity theft still prevent thousands from moving over to the digital payment platforms. Some 66% of the respondents in our survey said that security concerns remain their biggest worry. A cultural and mindset change is required to bring people on board and make them feel comfortable with digital payments.

However, service providers are taking steps for added protection. Free charge, for instance, recently launched an e-wallet protection plan (at no added cost) for all its users, where the underlying wallet balance of all the customers will be insured up to a limit of Rs 20,000, as long as the user is transacting at least once a month. Other e-wallet platforms are also expected to follow suit.

What is clear is that users' habits related to online transactions and usage needs to undergo a drastic change. "Nowadays users put up many personal details in the public domain through social networking platforms. If the profile is so widely available, it is not difficult for fraudsters to use it to their advantage," the smartphone will increasingly become the hub for making payments, but users need to take necessary precautions—keep the Bluetooth switched off, install antivirus software on the smartphone and not download suspicious files from the Internet. "Most people today use antivirus software on their desktop computer or laptop, but ignore the smartphone. It is critical that the smartphone is also secured properly. Three out of five respondents in the survey admitted to not having installed an antivirus software on their smartphone. Even if eWallet app is secure and trusted, we must be careful about other apps on the smartphone, which can potentially capture keystrokes or passwords being used for transactions. Most apps nowadays seek access to personal info stored on the smartphone including documents, media files, contacts, etc. Anti-virus and anti-malware software can come to the rescue. They scan the installed apps and flag potential risks, in case of apps asking for unnecessary permissions. Storing critical details on personal devices is another worrying habit.

Habits like writing down the PIN on the back of the debit or ATM card or sharing details over the phone is like presenting someone with a blank cheque.

VI. CONCLUSION

By the cashless transactions more transparency, more scalability and accountability will be obtained. As the demonetization applied by government of India, Government trying to aware its people for cashless transaction by various kinds of advertisement method but still a large number of people are awaiting for the introduction of cashless transaction. 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 transaction 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. Convenience and ease of transaction and is more secure compared to making transactions involving cash withdrawal. Drive the development and modernisation of the payment system, promote transparency and accountability, reduce transaction costs, and decrease the size of the grey or informal economy. Help business people grow their customer base and resource pool, far beyond the limitations of their immediate geographic area. Adds up to environment as no tree will be cut for printing paper money.

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