

IMPACT OF DEMONETIZATION ON ELECTRONIC PAYMENT SYSTEM

Ms. PRIYANKA

Abstract

Demonetization means ceasing a particular currency from its status as legal tender. Indian government has adopted it third time in November 2016 to cope up with fake currency, black money, and terrorism financing. The recent step had its cracking effects on every area of Indian Economy. To implement this demonetization effectively government has adopted number of policies just to minimize the problems and obstacles faced by the layman. Due to sudden announcement of demonetization Indian public suffered from the cash crunch but another side it induced electronic payments from November afterwards. This paper shows **The impact of Demonetization on Electronic Payment System** keeping in view the benefits of and obstacles in cashless payments in India.

Demonetization has given eminent contributions to DIGITAL INDIA which is another program run by Indian government to create transparent and responsive government. Due to this demonetization, online transactions have increased so far. Most of the people came forward for the first time to fulfill their daily basic needs through electronic payment systems like Paytm, e-wallets etc.

Introduction

Demonetization is a monetary step in which a currency unit is withdrawn from circulation. According to Investopedia, "Demonetization is the act of stripping a currency unit of its status as a legal tender." In other words, we can say that under the act of demonetization a currency having status as legal tender is declared invalid and now it can't be used for any economic transaction. It is necessary when there is a change in country currency.

Demonetization In India

It was not the first time when the eminent step of demonetization adopted in India. Keeping the same goal orientation of curbing The Black Money in economy, demonetization had been adapted two more times by Indian government. First in 1946 by Janta party government currency notes of high denomination 1000 and 10000 were demonetized.

Rs. 1000 and 10000 bank notes were in circulation prior to January 1946 the higher denomination banknotes of rs. 1000 , 5000 and 10000 were reintroduced in 1954 and again in January 1978 all of them were demonetized by Morarji Desai government. The Rs. 500 note came into circulation in October 1987 and Rs.1000 note made a comeback in November 2000. The move was then justified as an attempt to contain the volume of banknotes in

circulation due to inflation. This is the first time when currency notes rs. 2000 is being introduced.

Current Demonetization

On 8th November, 2016 PM of India Mr. Narendra Modi announced that the currency notes of denomination 500 and 1000 will no longer be legal tender from midnight onwards, means that these notes will not be acceptable for transactions. It was also specifically mentioned that the notes of 100, 50, 10, five, two and one rupee and all coins will be unaffected by this step and will remain legal tender. Further, time to time new notes of 500 and 2000 rupees with complete new design will be introduced by reserve bank of India. Although proper measurements will be taken by Reserve Bank of India to limit the share of high denomination notes in the total currency in circulation .Government claimed that this step is undertaken to fight against corruption, black money and fake currency. In order to bring down the difficulties of citizens several steps were taken:

- 50 days were given to deposit old notes of 500 and 1000 rupees. People holding old notes could deposit in banks or post office accounts from 10th November , 2016 till the close of banking hours on 30th December, 2016 without any limit .
- For immediate need people could exchange old currency up to the value of 4000 rupees at any bank or post office by showing their identity proof like adhaar card, pan card and ration card etc. later on this limit was extended.
- Keeping in mind the supply of new notes in the first few days there was a limit of 10000 rupees per day and 20000 rupees per week for the withdrawal from bank and 4000 rupees through ATMs.
- Those who were unable to get exchanged the old notes from banks and post offices till the stipulated time, they could get exchanged their holdings at specified offices of Reserve Bank of India up to 31st March 2017 after submitting a declaration form.
- Keeping in mind some basic necessities of citizens like health, food and travelling etc. Some special arrangements were also been made for the first 72 hours that was till midnight on 11th November, 2016. During this period some government authorities like hospitals, consumer co-operative stores and airline ticket counter at airports accepted the old notes for the concerned transactions.

Objectives

- **Counterfeit Control-** Prime Minister Narendra Modi cited terrorism financed by fake Indian currency as a major reason for invalidating the Rs 500 and Rs 1,000 notes that made up 86% of money in circulation.

Counterfeit money is limitation currency produced without the legal sanction of the state or government. Producing or using counterfeit money is a form of fraud or forgery Counterfeit is as old as money itself.

RBI data shows that in fiscal 2014-15, counterfeit notes in circulation rose 22% to 5,94,446 pieces and in 2015-16, almost 6.5 lakh counterfeit notes were detected in commercial banks of which almost 4 lakh were in the 500 and 1,000 rupees category.

Moreover the studies (India Spend Analysis of government) shows that in 2015-16, only 16 out of 250 fake notes were detected.

By demonetizing the old high denomination notes government has taken an initial step of discarding the fake currency which was present till this step. But by issuing new notes of 500 and 2000 rupees in future there will be the same condition of being published as fake note.

➤ **Curb Black Money**

Unaccounted money is that part of earning for which tax return has not been filed ever. In Indian society it is in practice to use cash transactions and such habit resulted in even people with accounted money are using cash transaction for high value transaction. Such transactions help people in hiding their real income which may be subject to tax liability. Consequently it generated a parallel economy with unaccounted money which is much stronger than the regular economy.

According to some estimates the size of black money in India range from 20% to 60% of GDP and more and the currency in circulation is just 12% of GDP

In order to detect the black money earlier in 2016 government devised an income declaration scheme (IDS) which opened on 1st June and ended on 30th September 2016. Under this scheme the black money holders could come clean by declaring the assets, paying the tax and penalty of 45%.

While announcing demonetization the enough stress was given to express the objective of curbing black money. This decision has considered as biggest cleanliness drive against the black money in the history of Indian economy.

As per the effect of this step although the black money holding with the society in form of cash i.e. high denomination notes of 500 and 1000 rupees, now became worthless piece of paper. But the whole black money is not kept as cash. Generally a bigger part of it is invested in real estate, gold, jewelry and other costly and luxurious things which are unaffected by the way of demonetization.

In 2012 CBDT had recommended against demonetization saying in a report that “Demonetisation may not be a solution for tackling black money or economy, which is largely hold in the form of benami properties, bullion and jewelry.” according to the data from income tax probes, black money holders keep only 6% of their ill-gotten wealth as cash hence together this cash it may not be a successful strategy.

Now as the main objective of our study is to lime light the effect of demonetization on cashless (electronic) transactions. Before finding the impact we need to know what are the needs and benefits of **CASHLESS PAYMENTS** and what are the harms to the economy due to cash payments.

Demonetization And Electronic (Cashless) Payment System

First of all the question arise why an economy need to go cashless. This has been tried to make clear by explaining the major contribution of cash payments in tax evasion and fake currency.

Harmful cash transactions

- **Tax evasion-**

Cash transactions are the major reason for tax evasion and hoarding of black money. In case of cash transactions the record are prepared manually where concerned person could manipulate the data. In order to reduce tax and other liability hiding real income and showing expenses at high rate is in general practice. For e.g. in case of transaction related to any

property buyer has to pay registration fee which is chargeable on purchasing price, and on other side seller has to pay tax on capital gain which will be as high as the selling price. Now seller gives an option to the buyer to pay some part of the price in cash rather than in check which will not be shown on papers. Now logically there is no need pay registration fee and tax on the amount paid in cash until and unless it is recorded on papers. Now buyer will get benefit of less registration fee and seller of less tax on capital gain. Consequently it reduces the government revenue. In the same manner the manufacturers use to make the invoices for selling at fewer amounts than the actual they charge. Many more ways are there to escape themselves from tax and duties.

- **Fake Currency-**

Counterfeit notes only can be used at cash transactions while there is no question of counterfeit notes in case of payment through electronic devices. More cash circulation resulted in more fake notes so by cashless payment mode the route of parallel economy can be eradicated.

Cashless payment system: Benefits

Cashless payments have their own benefits to the whole economy. The major role it plays in transparency. Each and every transaction is automatically recorded with the exact amount as it paid or received. It helps in eradicating tax evasion and keeping record of actual demand in economy. People also need not to carry bulky notes with them but just the required card with more sense of safety due to PIN protection.

It also help in eradicating the problem of fake currency, less cash payment will reduce the use of counterfeit notes. Moreover, there is no need to print more and more paper currency; it will save the printing cost of notes.

Hence cashless transactions could help us in increasing transparency and accountability and in minimizing the major problem of economy like counterfeit currency and black money.

Although there are some drawbacks of cashless transactions .the major problem is the cyber hacking which can put a person to a financial loss. Second thing is network connectivity, lack of awareness and insecure feeling problem in India especially in rural areas where people could have a smart phone but either they don't know how to use electronic devices for transaction, find network connectivity problem or have fear of losing money. But these problems are tried to be reduced to the possible level.

Impact Of Demonetization On Electronic Payments

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.

Conclusion

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

References

<http://www.civildaily.com/story/cashless-society>

<http://www.investopedia.com/terms/d/demonetization.asp>

<https://www.ncaacademy.com/know-all-about-history-of-indian-currency-demonetisation/>

<http://www.civildaily.com/story/cashless-society/>

<http://indianexpress.com/article/india/demonetisation-digital-payments-online-transactions-cashless-economy-india-decline-in-electronic-transactions-4553410>

https://en.wikipedia.org/wiki/Indian_black_money#cite_note-89

<http://techstory.in/demonetization-online-shopping/>