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## DEMONETIZATION AND CASHLESS ECONOMY

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### ABSTRACT

In an attempt to eradicate black money, counterfeit currency, and paving the way for a cashless society, the Central Government of India announced demonetization of ₹500 and ₹1,000 notes in November 8th, 2016. It is universally agreed that a safe and efficient national cashless system is essential for sound banking. This paper seeks to investigate problems and prospects of cashless economy and the challenges in making India a cashless economy. In India majority of transactions are cash based. Cash is still king for Indian consumers. Through demonetization of high value notes, central government tries to implement a cashless system in India by promoting digital transactions. Adoption of cashless system has a lot of benefits to economy and public. But it is a tedious process



since the digital literacy and usage of digital transaction among the public is low. Government of introduce some digital payment methods to ease the process like UPI, USSD, AEPS etc and announced concessions for digital users. The process is still continuing.

**KEYWORDS:** Demonetization, Cashless Economy, Surgical Strike.

### INTRODUCTION :

Prime Minister Shri. Narendra Modi's 'Surgical Strike' on black money through demonetization of high value notes causes immense impact to the Indian economy. Due to sudden drop of money

supply, commodity and general cash market transactions slow down. Life become quite arduous for the common man in cash - scarce, as cash economy is the present. The implementation of the policy has generated multiple reactions from public because of the anticipated e-payment challenges. Demonetization may change the economy forever and will help in making digital India. But India does not seem fully prepared. A recent report by Google India and Boston Consulting Group showed that about 75% of transactions in India were cash-based as of last year. Majority of the rural population does

not even have bank accounts. In our country were less than 20% have access to the internet. Also, 97% of retail transactions are done in cash, with only 6% of retailers accepting digital payments. There are only 18 ATMs per 1,00,000 citizens in India, according to the World Bank. These create a big hurdle for the digitalization. Since the world is moving from cash to cashless one through the electronic based transactions, it is indispensable for India too to move in the same direction. Demonetization has given an opportunity to move with global trends of being cashless. Becoming cashless economy is not an uphill; it only needs proper infrastructure and usage of available technology in a proper way. It is up to the governing bodies of the country to provide the necessary social amenities, infrastructure and give a push to banks and

telecom companies to improve the mobile and net banking for easy take off of the cashless policy. Apart from this government should also give incentives for electronic transactions.

### WHAT IS A CASHLESS ECONOMY

A cashless economy is one which the physical circulation of cash is minimal and all the transactions are done by digital means using debit cards, credit card, PoS machines, e-wallets etc. In cashless economy all the transactions recorded can be maintained regularly on a digital platform. Here third party will be in possession of money. He will allow transact money whenever it is needed. The third party can be a government or any company or any other public or private sector bank.

### WHY GO CASHLESS

Apart from turning out to be the biggest economic reform, reducing economy's dependence on cash is desirable for a variety of reasons,

#### Benefits to Economy as a Whole

- Financial Inclusion: Cashless economy will help to enhance the current banking system. There will be increased access to financial services to people. Financial inclusion will automatically reduce poverty.
- Reduction in Tax Avoidance: A transaction in cashless economy is highly transparent. All transactions can be monitored and traced back. So there is lesser scope of hiding income and evading taxation.
- Curb Corruption: E money is easily traceable. No one can demand bribe in cashless economy. Moreover, Red tapism and bureaucracy can be eliminated from the economy.
- Reduction in Illegal Activities: Digitalization leads to more transparency in the financial system, which helps in reducing unauthorized cash in the hands of public. It automatically leads to lesser funding for illegal trade and activities inducing terrorism.
- Reduction of Cost of Printing Notes: In cashless economy the use of currency notes is very less, as the transactions are mostly undertaken through digital means.
- Increased Economic Growth: Electronic transaction helps in curbing tax evasion and increasing money circulation. It boosts the nation's economy. Increased tax base would result in greater revenue for public welfare activities.

#### Benefits to Individuals

- Convenience: Individuals can make transactions without carrying bulky notes. Digital payments can be made with a tap on the mobile phone
- Safety: Cashless transactions are highly safe, as it is protected through PIN. Also the individuals are free from the fear of being robbed while carrying cash.
- Payments in small denominations can be made

Any amount of money can be transferred through cashless system, even in small denominations.

- Hygiene of notes is not an issue: Knowingly or unknowingly give and take of germs in the form of currency notes can be avoided.
- Speed and satisfaction: No delays, No queues, No interaction with bank officers are required. Transaction can be made from anywhere at any time by just tap on the phone.

#### Benefits to Business Concerns

- Increase the customer base: Electronic payments and e commerce helps the business concerns to grow their customer base and resource, by transacting in large geographical area.
- No cash, No problem: All transactions are undertaken directly through bank accounts, it eliminate the problem of dealing cash. No need to go everyday to deposit cash in bank accounts.
- Easier accounting: In cashless economy all transactions are automatically recorded through electronic terminals.

## PROBLEMS OF CASHLESS ECONOMY

### Some problems can be identified in cashless economy

- Proper infrastructure: Good infrastructure is essential for a developing an economy to cashless economy. Infrastructure includes, well developed banking system, proper internet connection, digital literacy among public etc.
- Security issues: Security issues are exorbitant in cashless economy. Hackers are constantly trying to exploit this system. They can hack sensitive information like password, credit card number etc, and leave the account with no money.
- System failure: If network fails no transactions can be undertaken n cashless economy.

## DIGITAL PAYMENTS METHODS FOR CASHLESS INDIA

Indian government, after demonetization, has been encouraging people to use cashless digital payment methods. The government has started several initiatives for making the country cashless, such as:

### • UPI (Unified Payment Interface)

It is as easy as sending a message from phone. Every bank has its own mobile app. It is a system that provides several banking services features like fund transfer, and merchant payments Utility Bill Payments, Over the Counter Payments, Barcode (Scan and Pay) based payments in a single mobile application

- + How to get it
- + Register the mobile number at Bank or ATM
- + Download the UPI app on your mobile
- + Make an unique ID
- + Set UPI pin

### • USSD (UNSTRUCTURED SUPPLEMENTARY SERVICE DATA)

Unstructured Supplementary Service Data can be used for banking via normal mobile phone there is no need to have mobile internet data facility for using USSD based mobile banking. The system envisioned towards a 'less-cash' and more digital society.

How to get it

- + Link mobile number to your bank account
- + Dial \*99# from your mobile phone
- + Fill in the first three letter of your bank against short name or first four letters of IFSC
- + Choose fund transfer-“MMID” option
- + Enter the payees mobile number and MMID
- + Enter the amount and your MPIN, leave a space and enter the last 4digit of your account number

### • E-Wallet

A digital wallet refers to an electronic device that allows an individual to make electronic transactions. This can include purchasing items on-line with a computer or using a smart phone to purchase something at a store. An individual's bank account can also be linked to the digital wallet. Many E-Wallets are available in the market like State Bank Buddy, Paytm, Airtel Money, HDFC PayZapp, ICICI Pockets, and JioMoney etc.

How to get it

- Download E-Wallet
- Register your mobile number
- Link this with your debit or credit card or through net banking

### • Cards, PoS (Point of Sale)

Make basic payments at most places with your prepaid, debit or credit cards. Everyday products and services for which one used to pay using cash are now being paid for using cards. Numbers of POS machines are deployed to handle these cards.

How to use

- Swipe your card
- Put in your PIN

- Get receipt
- **Aadhaar Enabled payment system**

Aadhaar Enabled Payment System is a way to get money from the bank account. This system of getting money neither requires your signature nor Debit card. AEPS allows online transaction at PoS (MicroATM) through the Business correspondent of any bank using the Aadhaar authentication. It is a system that provides several banking services features like Balance Enquiry, Cash Withdrawal, Cash Deposit, Aadhaar to Aadhaar Funds Transfer

**The only inputs required for a customer to do a transaction under this scenario are:-**

- ✦ Identifying the Bank to which the customer is associated
- ✦ Aadhaar Number
- ✦ Fingerprint captured during their enrollment

**CHALLENGES IN MAKING INDIA A CASHLESS ECONOMY**

Prime Minister Shri. Narendra Modi urged Indian citizens to move towards cashless economy to overcome the cash crunch the country has been facing since the demonetization of high value notes. "My Mobile...My Bank...My Wallet" he said on twitter. But cash is still king in India. So this process will be far from easy. The important issues that are holding the country back from this revolution are

- Much of the rural population does not even have bank accounts and has no access to credit or debit card for transactions.
- Digital literacy is very low among populace.
- Only 17% of Indians use smart phones, which is very low to become a cashless economy
- 73% of Indians or 912 million do not have internet access.
- Only 15% of Indians have internet on their smart phones.
- Internet loading speed is very low. The average page load time in India is 5.5 seconds. Whereas in china is 2.6 seconds.
- Country lacks data privacy laws and poor cyber security
- Majority of retailers, suppliers, and service providers belonging to the unorganized informal sector. They have no the infrastructure to offer card based transactions.
- PoS machines are must for any cashless transactions, however in India there are only 1.46 million PoS machines. It means only 856 machines per million people

**CONCLUSION**

A cashless economy refers to a system in which flow of cash within an economy is invisible and intangible. All monetary transactions in such economies are done through various electronic mediums like credit & debit cards, e-wallets etc. Through demonetization India steps on digital world. Indian government tries to abolish the cash system prevailing in India by introducing various policy measures. Development of cashless economy requires proper infrastructural facilities and populace must be able to us such facilities. Considerable effort on the part of authorities is essential for this move. If transactions are carried out without physical cash being exchanged, this is beneficial in regulating and curbing the flow of money in the black market as well as illegal and underground economies. In India today, it is the opposite - with the majority of transactions done with cash. This has to stop, India should be technological up-to-date in Banking transactions.

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