

**Radical Changes of Physical To Digital Cash Due To Demonetization – “Is It Really Contributing To The Digitization Crescendo”?**

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**Abstract**

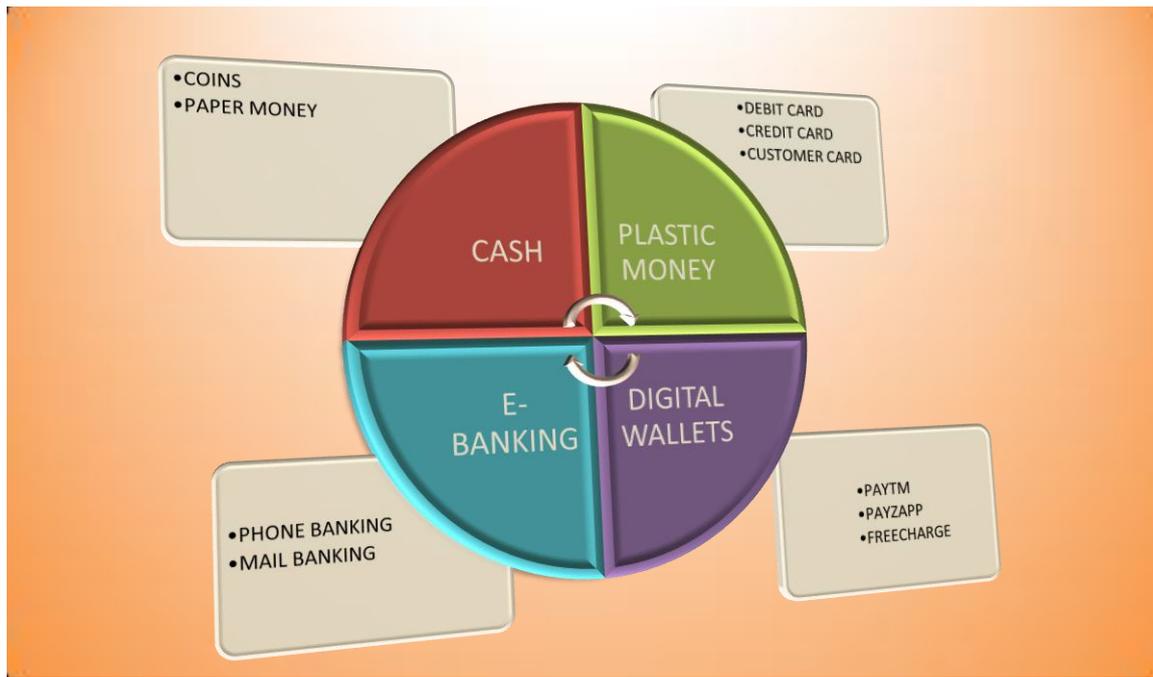
India is one of the cash based economies where most of the daily basis transactions take place in currency denominations. The unexpected announcement of demonetization on 8<sup>th</sup> November 2016 by Hon'ble Prime Minister Mr. Narendra Modi, acted as a catalyst to ignite the fire of digital transactions, as it was one of the rescues for the problem of cash crunches. Repercussion of demonetization has resulted in the majority of population of India turning towards digital transactions in place of paper money transactions. This research paper aims to tell us how technological advancements have gifted the consumers with new sources which can help them to make transactions simple, convenient and faster; some of them are digital wallets, net banking, Debit and Credit cards, etc. The upsides and downsides of cash transactions and digital transactions will also be discussed in this paper. Furthermore, how this appalling announcement has affected the routine transactions and whether shifting from cash to digital wallets is a smart move or not.

**Introduction**

With a giant leap forward in technological advancement, money is considered as one of the biggest and most important factor for this advancement. Because of the technological advancements people are able to keep and use money for various purposes not only in physical form but also in digital form, especially Digital wallets. In a Developing Economy like India, 68% of transactions take place through cash, according to a report by Credit Lyonnais Securities Limited (Nov 14, 2016). People, especially in villages, small vendors, small businessman such as retailers still prefer and rely on cash transactions. In early 2000's both Plastic money (Debit card, Credit card) and Net Banking were introduced and became a popular source for conducting online transactions. After sometime another payment method was introduced which is the latest and one of the most trending method of conducting online transactions that is “Digital Wallet”?

Digital wallet is nothing but an electronic device that allows a person to make online transactions through PC's or Smartphones. Digital wallets allow us to store money to use whenever and wherever we want. Even after introduction of these new, innovative and more convenient methods of conducting transactions, the mentioned above segment of people was reluctant to use these technical modes of conducting transactions because of the availability of smartphones and internet to most. According to a report from TRAI as on July 31 2016, out of 1034.23 connections, 88.88% are inactive. Then on November 8<sup>th</sup> 2016 Government of India declared that from November 9<sup>th</sup> 2016 all 500 and 1000 rupee notes will not be considered a legal tender. This announcement shocked the entire nation as most of the cash transactions were done in 500 and 100 rupee notes. Because of Demonetization, people were ultimately forced to move towards digital modes of payment as transactions involving huge amount was very difficult to be conducted in Rs. 100 notes, as a result importance of online payments increased considerably especially use of Digital Wallets and e-Banking increased.

The step of demonetization was taken by government to promote “Cashless Economy” i.e. to make most or all of the transactions using Digital wallets and Plastic money and use E-banking for transfer of huge funds which were earlier done through cash. The government wants to make India “Cashless” as to keep a regular and accurate check on spending of each person that was earlier very difficult in cash transactions and also that government can earn more revenue through taxes. As a result of “Demonetization” many people shifted from cash transactions to digital transactions. This research paper gives us an insight about acceptance of digital modes of payment (plastic money, E-banking, digital wallets) before demonetization and increase in use of “Digital modes of payment (plastic money, E-banking, digital wallets)” post Demonetization, are these digital modes of payment feasible to all segments of society and is it possible to achieve this mammoth target of “cashless economy”.



**Figure 1: Transformation of Money from Physical to Digital**

#### Literature Review

##### **Mobile Wallet – A Virtual Physical Wallet to the Customers: M. Manikandan, Dr. S. Chandramohan**

Mr. Manikandan and Chandramohan got their paper published at PARIPEX – Indian Journal of Research. They told “Mobile wallets are one of the biggest technological advancements of this era as they have made most of our tasks easier including booking movie tickets, ordering food and payment of bills etc.”

<http://www.worldwidejournals.in/ojs/index.php/pijr/article/view/6079>

##### **Understanding cashless payments in India: Mr Mukhopadhyay**

As a saying by Mr Mukhopadhyay, “Due to Demonetization there has been a great shift towards digital modes of payment (plastic money, digital wallets and E-banking) and every segment of people has been affected by this step”.

<http://link.springer.com/article/10.1186/s40854-016-0047-4>

##### **Demonetization and the Cash Shortage and the Black Money: Ashok K. Lahiri**

Mr Ashok K. Lahiri presented this paper at **National Institute of Public Finance and Policy** and said, “In pursuit of promotion of digital wallets after demonetization the government forgot that huge number of people who completely rely on cash transactions faced a massive problem of cash inadequacy due to lack of currency notes at Banks”.

[http://www.nipfp.org.in/media/medialibrary/2016/12/WP\\_2016\\_184.pdf](http://www.nipfp.org.in/media/medialibrary/2016/12/WP_2016_184.pdf)

**Effect of Demonetization on Financial Inclusion in India: Parul Mahajan and Anju Singla** The authors Parul Mahajan and Anju Singla presented their paper at 6<sup>th</sup> International Conference on recent trends in engineering, science and management at Shri Guru Tegh Bahadur Khalsa College, Anandpur Sahib, Punjab on 8<sup>th</sup> of January. They told that “demonetization has contributed towards the growth and popularity of E- wallet companies especially Paytm. These companies along with support with government will contribute towards making India a digital and cashless economy”.

<http://data.conferenceworld.in/SGTB/P1282-1287.pdf>

### **Demonetization - Unpacking the Digital Wallets: Smita Mahesh Pachare**

Mrs Smita Mahesh Pachare whose paper was published in We' Ken International Journal of Basic and Applied Sciences says that because of “Demonetization all the 500 and 1000 notes got banned and new 2000 and 500 rupee notes were introduced but due to lack of lower denomination notes such as Rs. 100 notes people were facing problems and hence digital wallets became popular for faster, safe and convenient payments.”

<http://weken.in/index.php/WeKen/article/view/109112>

### **Demonetization – Shifting Gears from Physical to Digital Cash: Shweta Mehta, Kruti Patel and Krupa Mehta**

The authors Shweta Mehta, Kruti Patel and Krupa Mehta mentioned in their paper “Demonetisation: shifting gears from physical cash to digital cash” that even after Demonetization “cash remains the most widely used method for conducting transactions”. It tells how demonetization will have an impact on E-wallets, UPI, net banking etc.

[http://www.voiceofresearch.org/doc/Dec-2016/Dec-2016\\_14.pdf](http://www.voiceofresearch.org/doc/Dec-2016/Dec-2016_14.pdf)

### **Cash Transactions**

Cash transactions are those transactions in which goods and services are exchanged with immediate payment of cash. There are two features that are involved in cash transaction i.e. exchange and cash. For cash transaction to happen buyer and seller must engage them in some type of transaction and immediately pay for the transaction involved. For example: if you go to a grocery store and purchase a packet of salt (exchange of goods or services) and then you go to the counter for making payment (immediate payment of cash). RBI to print and circulate currency notes and coins and keep them safe annually spends Rs 21000 crore.

According to a 2015 report by the Institute for Business in the Global Context citizens of Delhi alone spend Rs.9.1 crore and 60 lakh hours to withdraw and manage cash. 12% of GDP is circulated in the form of physical currency.

### **Pros of cash transactions**

- Debt: Fewer risks of debts in future as transaction are settled as soon as exchange takes place.
- Careful budgeting: It enables careful budgeting while settling transactions as you have that much cash to meet ends.
- Cost effective: No additional fees are to be paid for cash transactions, as no third party is involved.
- Cash flows: Cash transactions lead to more cash inflows in businesses.

### **Cons of cash transactions**

- Bookkeeping: It might be difficult to keep track of all the expenses; therefore, vigilant bookkeeping is required.
- Business transactions: Business firms usually do not carry transactions of large amounts in form of cash.
- Security: - Cash can easily be stolen; it cannot be returned back to you.
- Credit: - Many people believe in making huge amounts of payments in future dates. If one do not provides the credit facilities then he or she may lose its customers.
- Space: - One needs to have enough space to keep the cash safe.
- Urgency or immediate purchases: - At the time of immediate purchases one might not be having enough cash to make the purchases.

### **Effect of demonetization**

After saying good bye to 500 and 1000 notes and welcoming the new 500 and 2000 notes, the money supply was expected to be reduced in short run, as old denomination accounted for 86.4% of country's physical currency circulation. When the circulation of new notes has been mismatch get corrected then the money supply will pick up.

### **Plastic Money (Debit Card & Credit Card)**

“Plastic Money” is a term which indicates money in form of plastic i.e. Debit card and Credit card. But what are these? A Credit card is a payment card that allows a person to pay someone for purchasing or

availing of goods and services based on cardholder's promise to return that amount along with agreed charges to the card issuer. On the other hand, a Debit card is a payment card that is used to pay someone for purchasing or availing of goods and services and the amount is directly deducted from that person's Bank account. Edward Bellamy introduced the concept of using cards for purchases in his book "Looking Backward". In India Credit cards were introduced by Andhra Bank in 1981. The first bank to introduce Debit card in India was Citibank in 1987. The Debit cards popular in India are:

- EFTPOS (Pin Debit) – These are cards in which each transaction has to be authorized through PIN.
- Offline or Signature Debit – These cards have a withdrawal limit of either one day or maximum amount available in current account.
- EPCS – These are the cards in which amount is stored directly so that they can be used offline.

Credit Cards which are popular in India are:

- Reward cards
- Auto/fuel Credit cards
- Business cards

These cards were mainly introduced to replace cash and they have various advantages over cash but they also have various disadvantages.

**Advantages of debit card:**

- The total amount that the card contains belongs to the owner.
- These cards are easy to carry than carrying a bundle of cash i.e. they are portable.
- They are easier to get as compared to credit cards as for a debit card you only need to have a bank account and with some little paper work you can get a debit card easily.

**Disadvantages of debit card:**

- Some ATM's charge transaction charges that make it a kind of credit card.
- Limited money can be used for transactions as transactions depend upon the amount available in the respective person's Bank account.

**Advantages of Credit card:**

- Credit cards can be used in difficult situations where a huge amount is needed to complete the transaction.
- It helps in building a good credit line which is essential for applying for loans and jobs i.e. the higher the credit limit of a person's credit card, the higher will be the credit worthiness of that person.

**Disadvantages of credit card:**

- Credit card companies charge more interest on transactions, usually higher than transactions on Debit cards.

These cards are mostly used for purchasing of fashion products, supermarkets and for restaurants. Before demonetization, card swiping machines were mostly seen in shopping complexes, airports etc. But post demonetization, card swiping machines were installed by everyone comprising of retailers and wholesalers to small vendors. This clearly displayed a huge shift from cash to digital currency. Also, to promote these cards, the government waived off transaction charges from Debit cards till 31<sup>st</sup> Dec, 2016. On 26 March 2012, NPCI (NATIONAL PAYMENTS CORPORATION OF INDIA) introduced RuPay card which is like a Debit/Credit like Visa, Master card etc. which became popular post demonetization as an alternative to cards of foreign companies. After Visa, RuPay has the second highest market share in India of around 36%.

**E - Banking**

E – Banking is an electronic payment system that helps the customers to conduct financial transactions directly through their bank account through the website of that financial institution. E – Banking is further a forward step in technological advancement of making money transactions in a more convenient way as it does not require even plastic money (Debit and Credit card). Online Banking was first started in the early 80's and was popularized in the late 80's. It is considered as a better and a reliable source for conducting transactions as –

- Customers can view recent transactions and even their Bank Statement.
- Cheque books can be ordered.
- Various banking applications can be downloaded.
- It is very less time consuming and transfer of funds can take place in seconds whether it is a transfer within a country or outside a country.

What is the similarity between plastic money and e – banking? It is that both of them use a pin to protect and make payment through the accounts. The e- banking is also having password system but because of PIN/TAN, pin can also be used as a password. So, with these advantages it will also have some disadvantages:

- Trust issues are present in online banking as there are chances of online fraud.
- It is technical in nature so it will take time for some people to learn about this system.
- Some banking websites are difficult to navigate.

### **Digital Wallets (Mobile Payments)**

Mobile payment is referred as payment services under financial regulations via mobile applications. These applications are useful for n number of purposes like transferring money, paying utility bills, shopping, ticketing etc. With the increase in adoption of smartphones mobile payment or mobile wallets are becoming the commonplace for making payments. Customers download the application in their smartphones and link their bank accounts or cards with the wallet. Consumers also appreciate the privacy provided with these wallets as personal information is not shared by the merchants.

According to analysts at Technavio, by 2018 the mobile wallet market in India will grow at a **CAGR of 140%**, while the global mobile wallet market will register a **CAGR of 34%** by 2020.

### **Pros of mobile payment**

1. Transparency: It is transparent and it is easy to track most of the flow in the economy
2. Corruption: It checks the corruption as transactions can be tracked
3. Time effectiveness: One need not to go anywhere for making payment as they can do it from his or her mobile phones itself, which helps in saving time.
4. Tax: Tax cannot be evaded.
5. Cost effectiveness: It is cheapest mode of making payment.

### **Cons of mobile payment**

1. Risk: Mobile phones have risk of being stolen.
2. Device failure: In case of device failure you may not be able to do any type of transaction.
3. Terms and Conditions: It is difficult to read the term and conditions because of its length.
4. Incompatibility of device: Sometimes the mobile device is incompatible of the application necessary to be installed.

### **Effects of demonetization**

Demonetization played a very important role in adoption of mobile payments (mobile wallets) in India. It proved to be an opportunity for the wallet merchants to take the movers advantage at the critical stage of demonetization. Due to lack of finance small vendors have adopted the method of wallets rather than PoS.

Paytm saw a huge spike in traffic i.e. 435%. It also said that there is 200% increase in downloads and 250% swell in transaction and transaction value. 1500% increase in recharges was witnessed by Ola money. Mobikwik saw 15 times increase in its business. Seeing the hike in the traffic, downloads and recharges we can say that demonetization came as blessing in disguise for many people whether it is vendors, public or owners of the applications.

Besides hikes in traffics and downloads in application there are some of the challenges faced by them; to handle malevolent traffic it has become necessary to enable more security features, application optimization became another concern to ensure smoother flow of traffic, as many consumers are new to mobile payments handling their complaints and grievances effectively have become more important.

## Conclusion

One thing that has led to a discourse in the country since the past few months is demonetization. It aimed towards tapping untapped money used for tax evasion, corruption and terrorist activities. Another objective of this stupefied move was to make India Digital i.e. leading India towards being a cashless economy. "Our dream is that there should be cashless society. It is correct that 100% cashless society is never possible. But we can make a start with less-cash society - then cashless society will not be a far-off destination," as quoted by our Hon'ble Prime Minister in "Maan ki Baat", radio address.

The amplifying effect on digital transactions was a natural outcome of demonetization. This is where we began to end the war against the cashless economy. If digitization takes place then most of money can be accounted for through the bank systems. The close scrutiny of individuals and organizations income could be tracked. This will help to erode the problem of tax evasion and corruption.

Many Indians are well versed with the use of digital transactions and helping those who are not we can help India sail through this digitization phase at the drop of the hat. Making India cashless will prove to be a salutary move for country and its growth.

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