

Demonetization of Currency Notes - A Step towards a Cashless Economy

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Abstract: As the clock struck twelve on the midnight of 8th of November 2016, a vast majority of the Indian population found themselves stripped off the ability to relate economically. The Demonetization of 500 and 1000 denomination banknotes of the Mahatma Gandhi Series almost froze the country in its footsteps. Subsequently, people were buzzing with the talk on demonetization, its effects, positive and negative. New vocabulary like demonetization, cashless transactions, and online transactions came into vogue.

India is a highly cash-dependent economy. Majority of the transactions in India is cash- ridden. A cashless economy was beyond the comprehension of Indians till recently. This research paper is an attempt to study whether the common men are even aware of the alternatives for cash transactions like online transactions. It aims at estimating the adequacy of the technical support as the country moves towards a cashless economy. It is intended to eventually figure out the most popular digital wallet.

The study is proposed to be conducted using primary data administered through the use of structured questionnaire. The secondary data would be gathered from the books, journals and websites. The study will be confined to selected samples, six months post demonetization.

Key Words: Cash Dependent Economy, Cashless Transactions, Demonetization, Digital Wallet, Online Transaction, Technical Support.

I. Introduction

As the clock struck twelve on the midnight of 8th of November 2016, a vast majority of the Indian population found themselves stripped off the ability to relate economically. The Demonetization of 500 and 1000 denomination banknotes of the Mahatma Gandhi Series almost froze the country in its footsteps. The government claimed that the whip of demonetization would not only crackdown the black money but also check the usage of counterfeit money to fund illegal activities. The sudden announcement caught the people unawares. In the weeks to follow there was total turmoil in the economy as 95 percent of the transactions in the country were in cash, 90 percent of the vendors had no other means but to accept cash and 85 percent of the workers in the unorganized sector were paid in cash. The overnight announcement and the poor planning were therefore subject to heavy criticism and were even met with protests. The cancelled notes were replaced by new 500 and 2,000 denomination notes. The slow printing and circulation of the new notes put the most cash-dependent country in the world in a fix. Due to this cash crunch all the three sectors primary, secondary and tertiary sectors were affected. Buying food, hospital charges and small payments were even becoming a challenging task. In order to derive first-hand information from the people affected a survey was conducted and the results analysed and interpreted.

1.1 Literature review

K. Veerakumar (2017)[1] states that demonetization is the process where government declares the currently running currency notes illegal to be tender after the declaration is made. Sunita (September 2014) [2] through her research stated that enhancing trade deficit, 1965's war foreign exchange reserves, withdrawn of FII's (Foreign Institutional Investors) and strengthening of the dollar were the key reasons for demonetization in India in 1978. Presently the Indian government adopted demonetization to tackle with black money and make India a cashless digital economy (Ayush, 2017)[3], Thimmaiah (2017)[4] opined that the impact of demonetization will be positive only in the long period of time. Currently, the industries will have heavy losses. The limping industries will have an immediate negative impact on the Indian economy. Khursange's (2014)[5] findings reveal that people know about the online services but still many people are unaware and many of them are non-users. Mali, (2016)[6] is of the opinion that demonetization has both positive and negative impact, but in the long run, it will definitely have a positive impact in controlling black money and fake money.

1.2 Need for the study

People were buzzing with the talk on demonetization, its effects, positive and negative. At this juncture, we felt the need for a study on the effects of demonetization. Our curiosity centred on new vocabulary like demonetization, cashless transactions, online transactions and so on. Our College provided us with a right opportunity which enabled this study. The value of this paper lies in its ability to scientifically and structurally gather information from the vicinity of the college and across the country. This paper should be seen in the context of primary data gathered on a topic of one of the most controversial and bold decisions taken by the government of India.

1.3 Objectives

- Analyse the awareness of online transactions six months after demonetization. (April 2017)
- To study the preference for cashless transactions as an effect of demonetization
- Test the adequacy of the technical support for online banking
- To arrive at the most popular digital wallet

1.4 Methodology

This study has covered both primary and secondary data collection methods. The primary data was collected from the respondents through the use of structured questionnaire. These questionnaires were handed personally to the respondents who were in promiscuity. In order to reach out to the respondents at a distance and in other cities Google Docs was opened up and the required details gathered. This enabled gathering information from across the country. The questionnaire was divided into three parts namely demographic, personal and professional. The demographic profile was related to the personal details of the respondents in the nature of the gender, age, educational qualifications, occupation and annual income. Personal responses were directed towards the visit to the bank in contrast to online banking. The professional responses were gathered from the bankers themselves. The secondary data has been gathered from the books, journals and websites which already have veracity and authenticity.

1.5 Limitations

- The study is restricted to the selected samples and hence the result of the study cannot be generalized.
- All the limitations of primary data are applicable to this study.

1.6 Future Study

This study was at the primitive stage of demonetization. There is ample scope for future study. The effect of demonetization can be studied in totality only in the future.

II. Findings

2.1 Analysis and Interpretation:

Primary data was collected from 247 respondents which were the sample size. A questionnaire was prepared using Google Docs. This was made available to the respondents through WhatsApp. This enabled gathering quick response covering a wide range resulting in a swift analysis. Data were gathered in the area of demographic profile and personal responses to demonetization and professional details pertaining to the banking operation which was affected severely.

2.2 Demographic Profile of the Respondents:

Demographic Profile
Table-1

Number of Respondents:247		
Criteria	Sample	Percentage
Gender		
Males	185	75
Females	62	25
Age (Years)		
< 18	15	6
18-30	142	57
31-40	33	13
>41	57	24
Educational Qualifications		
High School	10	4
Intermediate	22	9
Under Graduation	108	44
Post- Graduation	99	40
Others	8	3

Occupation		
Students	124	50
Employees	80	32
Professionals	43	18
Annual Income		
< 2.5 Lakhs	36	29
> 2.5 Lakhs	87	71

Table 1 shows the demographic profile of the respondents under study. Out of the 247 respondents who were taken for the study most of the respondents (75%) are males. The maximum number is in the age group of 18 to 30 years. The educational qualification of the majority of them is under graduation. The sample had students (50 %), employees (32%) and professionals (18%). The annual income of the majority of the respondents (71%), other than the students, was more than 2.5 lakhs.

Personal Responses
Table-2 (Personal Responses Analysis)

Criteria	Sample	Percentage
Visit the Bank in One Month		
< 2 times	103	42
3-5 Times	58	23
6-8 Times	21	9
Never	64	26
Purpose of Bank Visit		
Withdrawal/Deposit	168	73
Balance Enquiry	13	7
Advice on Investments	14	6
None	7	3
Others	28	12
Number of withdrawals from ATM in a Month		
< 2 Times	95	38
3-5 Times	85	34
6-8 Times	37	16
None	30	12
Preference		
Cash	95	38
Cashless	152	62
Usage of Online Banking		
I am aware and Using	179	72
I am aware but not Using	43	18
I am unaware and not Using	25	10
Purpose of Online Banking		
Fund Transfer	150	47
Balance Enquiry	76	24
Loan/Credit Card	19	6
Payments	52	16
Others	22	7
Usage of Digital Wallet		
Paytm	135	52
BHIM	12	5
None	85	33
Others	26	10
Awareness of Unified Payment Interface		
Yes	70	28
No	177	72

III. Effects of Demonetization

3.1 Personal Responses

The personal responses in the table- 2 revealed the effects of demonetization. The study showed that gradually the visit to the banks is on the decline. 43% of the respondents visit banks less than two times a month. The comfort of online banking is fast spreading. The study revealed that 73% of the visit to the bank is for deposits or withdrawal. Not many banks have a facility for depositing mechanically. The shortage of cash has rendered much ATM's cashless. The movement is towards cashless transactions slowly and steadily as 62% expressed a preference towards it. Approximately 3/4ths of the respondents are aware and are using online banking and one half of them utilize it generally for fund transfer. Paytm is the most popular digital wallet with 52% usage among the respondents. A vast majority are unaware of Unified Payment Interface.

3.2 Professional Responses

Table-3 (Professional Responses Analysis)

Criteria	Sample	Percentage
Encouragement for Online Transactions		
Yes	39	90
No	2	5
Sometimes	2	5
Workload due to Online Transaction		
Increased	5	12
Decreased	20	46
No Change	18	42
Post Demonetization Online Transaction		
Increased	40	93
Decreased	0	0
No Change	3	7
Adequacy of Technical Support		
Adequate	22	51
Inadequate	08	19
Partially Inadequate	13	30
Separate Wing for Online Transactions		
Yes	21	49
No	14	33
In the Process	08	9
Customers Availing Online Transactions		
Below 25%	25	58
26-50%	14	33
Above 51%	04	09
Personal Touch and Online Banking		
Yes	20	46
No	06	14
May Be	17	40
May Not Be	00	00
Safety in Online Banking		
Safe	14	33
Unsafe	01	02
Partially Safe	03	07
Cautious Handling for Safety	25	58
User-Friendly Online Banking		
Mobile	32	74
Internet	09	21
Others	02	05

The professional responses in table- 3 show that the bankers, post demonetization, are encouraging online transactions. The online transaction has brought about no change in the workload of 42 % of the respondents as there are multiple roles in the banking sector. A reduction in the workload is noticed among 46% of the respondents. A noteworthy response was that online transactions have increased post demonetization. More than 50 percent of the bankers were of the opinion that the technical support for this transformation was adequate. Approximately 50 percent of the respondents stated that they have a separate wing for online transactions. Around 10 percent of them opined that a separate wing was in the pipeline. Six months post demonetization less than 25 percent of the customers are availing themselves of online transactions. Though online transactions have increased the pace is slow. The vehement response of 46 percent of the respondents was that personal touch will gradually be lacking in the banking industry as it moves towards a cashless economy. Uncertainty regarding the future banker- customer intrapersonal relationship was expressed by 40 percent of the respondents. More than 50 percent of the respondents emphasized on cautious handling as a safety measure for online banking while 33 percent declared that it was safe to use online banking. Three-fourths of the respondents find mobile banking most user-friendly.

IV. Other Effects of Demonetization

4.1 Online Banking Awareness

In the area of study, which is in the Telangana State, the literacy rate is 66 percent. The study itself revealed that more than 50 percent of the respondents had an educational qualification below graduation level. It was therefore mandatory to make a study of the awareness of online banking among the respondents. The study on awareness of online banking showed that three-fourths of the respondents were not only aware but also using it.

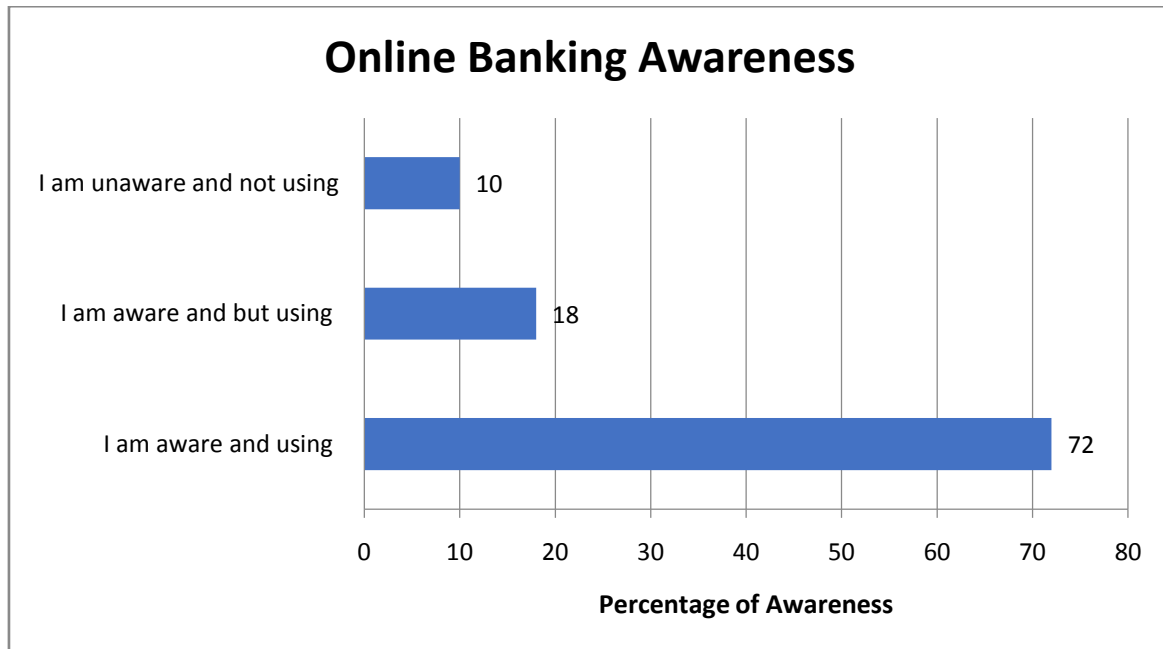


Figure-1

4.2 Cashless Transaction

In a globalized world, the cashless transaction system is not only a requirement but the urgent need of the hour. The entire world market basically depends on cashless transaction system. The cashless transition is not only safer than the cash transaction but is less time-consuming. The trouble of carrying bulky currency especially during travel can be shunned. Wear and tear of paper currency can be avoided which is cost cutting for the government. It enables recording transaction which enables checking tax evasion. Undoubtedly the future belongs to a cashless system as the entire world scenario is rapidly moving towards it the study revealed righteous change towards a cashless transaction among the respondents. Majority of the respondents preferred a cashless transaction. A small minority of the respondents, to be precise 38 percent preferred a cash economy. The change has been rigorous and quick considering how it was a 95 percent cash transaction economy.

4.3 Adequacy of Technical Support

There was inadequate infrastructure for the installation of online banking channels in India. Online banking requires high start-up cost. It includes a computer, internet, advanced hardware, software, maintenance and reorganization of cost. Technical defaults leading to loss of data is an added difficulty. There is generally a dearth of professionals like web developers, content writers and knowledgeable professionals. Internet availability and connectivity also pose problems. However, our study has given a positive picture as more than eighty percent of the responses were either in favour of adequate or in the process of reaching adequacy of technical support.

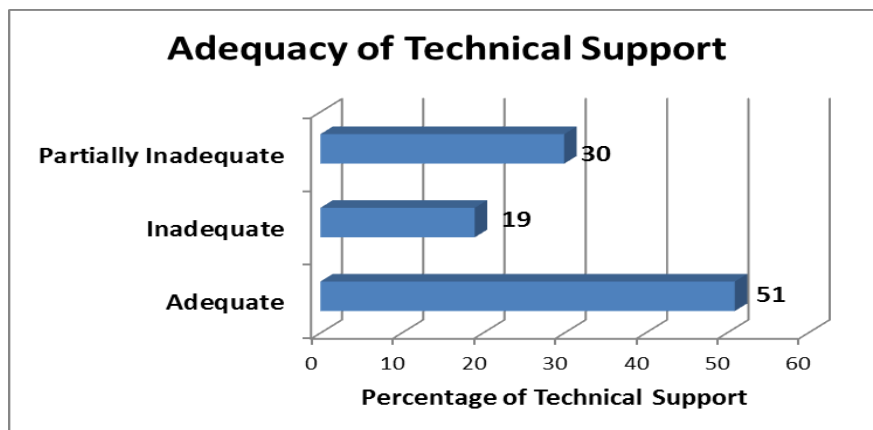


Figure-2

4.4 Most Popular Digital Wallet

The digital wallet is an alternative for online payments. The digital wallet is being adopted at an incredibly rapid pace primarily because of convenience and the ease with which it can be used. Brand value is another factor for continuing the use of a specific digital wallet. Security, safety and service provided also are vital factors of selection. The requirement of smartphones for the usage of digital wallet poses a big hindrance. Paytm turned out to be the most popular digital wallet as per our study which is expressed graphically.

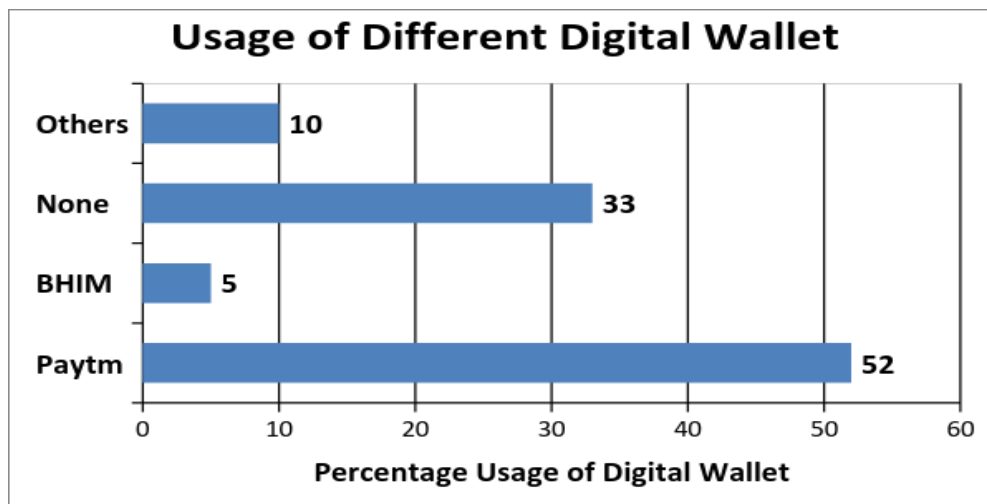


Figure-3

V. The Findings

- The physical visits to the banks has decreased post demonetization
- ATM withdrawals have shown an upward trend after demonetization
- The purpose of bank visit is for deposits or withdrawals
- Professional response reveals that online transactions are being encouraged
- Online transactions have increased post demonetization
- Workload of bankers has decreased due to the slow but steady movement towards a cashless economy
- Personal touch may gradually decrease in a cashless economy
- Cautious handling of online banking will make it safe
- Mobile banking is regarded the most friendly online banking
- United Payment Interface is not yet popular
- Banks are making sincere efforts to popularize online banking and cashless transaction making it not only an acceptable mode but a preferred mode of banking

VI. Suggestions

- A hundred percent awareness regarding online banking to be attained
- Banks to organize more customer meets to encourage awareness regarding online banking
- Cashless transaction to be encouraged more among the older generation
- Technical defaults due loss of data to be checked by adopting latest technology
- Technical support in banks to be enhanced.
- Security, safety and service provided by digital wallet to be popularized.

In conclusion, one can say that the expectations from demonetization are many. There is a strong belief that it will help the government track unaccounted black money. It is appreciated as a bold step taken by the government to achieve a corruption-free economy. It is expected to bring down illegal activities, terrorism and money laundering activities. There is anticipation that the tax collected due to the launch of demonetization policy would enhance the developmental activities in the country. Inflationary trends which the country has been facing may take a down turn making life comfortable for the poor and the low-income group. Demonetization has however the demerit of increasing the public expenditure tremendously. The demerit apart one expects a positive outcome in the long run.

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