

# DIGITALIZATION – A WAY TOWARDS CASHLESS ECONOMY

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## Abstract

*The word Demonetization means the 'act of stripping a currency unit of its status as a legal tender usually the opposite of the word re-monetization. This occurs whenever there is a change of national currency. Such an unexpected day of demonetization affected our nation on 8<sup>th</sup> November, 2016 where our Prime minister announced the demonetization of all ₹ 500 and ₹1000 banknote of Mahatma Gandhi series and announced the issuance of new ₹500 and ₹2000 banknotes in exchange. The aim of demonetization is to bring an attack on black money, cashless-economy, bigger –tax base, a blow to terrorism. The paper highlights the alarm for Digitalization – A way towards cashless economy where the number of users being cashless gradually rising post Demonetization.*

**Keywords:** Demonetization, Cashless society, payment methods

## INTRODUCTION

**Demonetization** is the act of breaking down of a currency unit of its status as legal tender. It occurs whenever there is a change of national currency: The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins



Since 8<sup>th</sup> November 2016, the two high-denomination currencies of our country, the 500 and 1000 rupee notes, lost their monetary worth. When Prime Minister Modi announced about this demonetization in the Prime Time News the previous evening, it took the whole country by surprise. This masterstroke by government to fight the financial issues of the country, like black money hoarding, terror financing, counterfeit currency, parallel economy, etc., was welcomed and praised by many people in the electronic and social media.

Although the new 2000 rupee currencies have been released and is available in banks, it might take some time for the ATMs to be re-calibrated to dispense the new currency notes. Furthermore, the government has also downsized the daily withdrawal limit across all the ATMs for time being

## SIGNIFICANCE OF THE STUDY

The paper highlights about the Digitalization: An alarm that brought the need of going cashless.

## RESEARCH METHODOLOGY

The paper is prepared using the secondary sources like journals, published articles , books and magazines and websites.

## OBJECTIVES OF THE STUDY

1. To understand the need of digitalization
2. To look into the framework of cashless society
3. To understand various modes of digital payments.

## CASHLESS ECONOMY

A cashless society describes an economic state whereby financial transactions are not conducted with money in the form of physical banknotes or coins, but rather through the transfer of digital information (usually an electronic representation of money) between the transacting parties

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 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.

## DIGITAL PAYMENT MODES

Digital payments are beneficial for all parties. The consumers can save time that they spend on rummaging for exact change or standing in ATM queues. With cashless payments, customers can just swipe a bank card or use mobile apps. Business owners can save the money that they would have otherwise spent in cash handling. Furthermore, they also gain more information on their customers

For both consumers and merchants, digital transactions will help in reducing point-of-sale time. Thus merchants will be able to provide a more effective service.

### mPOS/Card swiping machines for Merchants

No matter whether you sell necessary, everyday items or luxury products, the first question you would have encountered in the past one week was “Do you accept card payments?” Card payments have become inevitable these days. Demonetization or not, card payments are useful and comfortable for various reasons. Firstly, while accepting and making card payments, the need to carry cash in multiple denominations can be avoided. Also, card payments generate digital receipts for both consumers and merchants, so every transaction is recorded.

### **UPI for Peer-to-Peer Money Transfer**

These days, from food to the internet, we can share everything. Young professionals hang out and spend a lot together. This would obviously lead to sharing expenses. From sharing house rent with your roommates to sharing food bill with your colleagues, there is a lot of need for peer-to-peer money transfer. UPI allows you to transfer money instantly to anyone without a need to know their bank details. All you need is their virtual UPI ID, and you can transfer money from your account to theirs easily.

### **Mobile Wallets for Small Business Owners**

Just because you have a small business doesn't mean that you have no need to accept card payments. Be it a small-scale online business or a local grocery store, receiving card or digital payments can be quite beneficial. From preventing internal fraud to having a record for every transaction, digital payments come handy.

### **Electronic Clearing Service (ECS)**

Electronic Clearing Service Credit Bank introduced the ECS (Credit) scheme during the 1990s to handle bulk and repetitive payment requirements (like salary, interest, dividend payments) of corporates and other institutions. During September 2008, the Bank launched a new service known as National Electronic Clearing Service (NECS), at National Clearing Cell (NCC), Mumbai. NECS (Credit) facilitates multiple credits to beneficiary accounts with destination branches across the country against a single debit of the account of the sponsor bank.

### **National Electronic Funds Transfer (NEFT)**

National Electronic Funds Transfer (NEFT) System introduced in November 2005, was set up to facilitate one-to-one funds transfer requirements of individuals / corporates. Available across a longer time window, the NEFT system provides for batch settlements at hourly intervals, thus enabling near real-time transfer of funds.

### **Real Time Gross Settlement (RTGS)**

Real Time Gross Settlement (RTGS) System is a funds transfer systems where transfer of money takes place from one bank to another on a "real time" and on "gross" basis. Settlement in "real time" means payment transaction is not subjected to any waiting period. "Gross settlement" means the transaction is settled on one to one basis without bunching or netting with any other transaction. Once processed, payments are final and irrevocable. This was introduced in 2004 and settles all inter-bank payments and customer transactions above Rs.2 lakh.

## **THE FUTURE OF DIGITAL PAYMENTS**

Demonetization has given the much required push to digital transactions. But there is still a long way to go for the digital payment system to become mainstream. With the government pushing for it and increased adoption by consumers, companies and experts are hopeful that it will continue to rise in the future.

"We (Indian economy) are in a transition phase, digital mode of payments and cash will continue to co-exist, and presumably, even flourish simultaneously moving India towards becoming a 'less-cash' economy" "The push to get the unbanked on a banking platform is the key first step. On top of that, the penetration of cheaper data services provides the right conditions for digital payments to explode soon".

After demonetization a lot of new wallets were launched and the existing ones in the market have been performing exceptionally well. "Going forward, we will play a key role in bringing millions of small merchants to the formal financial ecosystem, and make wealth management and financial services accessible to them. We believe this is a great opportunity for us to offer financial services and contribute to the growth of our country.

## CONCLUSION

The demonetization a step towards cashless economy leads to improvement in credit access, financial inclusion, reduces tax avoidance and money laundering. The usage of cashless tools is on rise and people are adopting the same. Of course, it has its own effect on people, only backlog is that the people should get used to this, once they get used to these tools, sure the digitalization is going to prove as greatest tool towards all forms of black marketing. Finally, the need of the hour is going to be "towards cashless economy"

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