

DEMONETIZATION IN INDIA: IMPACT ON DIGITAL PAYMENT SYSTEM

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Abstract : Demonetization in India happened on Nov 8th, 2016 by cancelling Rs. 500 and Rs. 1000 currency notes. This is not the first time happened in India. The decision of Demonetization happened 3 times before the latest decision. After the announcement of demonetization, there is so much happened in usage of digital cum cashless payments. The surprise demonetization announcement also did something else: it pushed millions of new users onto the country's digital economic grid. Every state tried to come with new solutions to solve demonetization problem. The farmers' markets of Telangana State experimented with their own electronic payment system where customers with Aadhar-linked bank accounts could buy vegetables using tokens which could be purchased via debit cards at specialized kiosks. The present study is on the impact of demonetization in improving the usage of Digital Payment systems.

IndexTerms - Demonetization, Electronic Payment System.

I. INTRODUCTION

The Indian rupee (INR) is the official currency of the Republic of India. The rupee is subdivided into 100 paise (singular paisa), though as of 2011 only 50 paise coins are tender. The issuance of the currency is controlled by the India. The Reserve Bank manages currency in India and derives its role in currency management on the basis of the Reserve Bank of India Act, 1934. The rupee is named after the silver coin, rupiya, first issued by Sultan Sher Shah Suri in the 16th century and later continued by the Mughal Empire. In a major step to check undeclared black money, the Government of India on the 8 November 2016 announced demonetization of Rs 500 and Rs1000 banknotes with effect from the same day's midnight, making these notes invalid. Apart from combating black money, the stated purpose is also to check fake currency (used to finance terrorism) and corruption. A new redesigned series of Rs500 banknote, in addition to a new denomination of Rs 2000 banknote is in circulation since 10 November 2016. The demonetization of the highest denomination currency notes is part of several measures undertaken by the government of India to stop duplicate notes, black money and funding of illegal activities like terrorism, foreign currency scam etc. The requirement to deposit currency notes in excess of specified limits directly into bank accounts has resulted in the declaration of hitherto unaccounted income, subject to higher tax and other penalties. India has one of the highest levels of currencies in circulation at over 12% of GDP and of this cash, 87% is in the form of Rs.500 and Rs.1,000 notes. With increasing adoption of electronic payments, particularly those driving e-commerce and m-commerce, there is a growing demand for faster payment services which, in turn, facilitate ease in doing financial transactions.

II. LITERATURE REVIEW

The Five Best Digital / cashless payment options in India

2.1 E Wallets

After demonetisation, use of e wallets has been implemented at a very large-scale. We have seen those 'chai walas' and other road side vendors accepting Paytm. Paytm is an e wallet and there are many others available.

These e wallets allow users to make payments using mobile number or by scanning a QR code which takes place in a jiffy [10]. We can add money to you paytm wallet online using debit/credit card/net banking. Also there are physical recharge points available all over India where we can add money to paytm e wallet.

There are also many other electronic wallets available in app stores like google play. They include jio money, vodafone mpesa & airtel money. Even banks have launched their own e wallet apps like State bank buddy and Yes Pay. [10]

2.2 Unified Payments Interface

Unified Payments Interface (UPI) is another great way to go cashless. UPI is system of payments. Using unified payments interface, people can transact using their smart phones. To pay using this system called unified payments interface, we need two important things: Smartphone and a Bank Account.[9]

2.3 Plastic Money

It 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 us burden free from carrying cash.

Also risk of theft goes down to zero as it needs a PIN carry out transactions. We don't need to carry huge amount of cash with you. Just swipe and go. Debit card payments are made through bank account. Bank account gets debited while paying using debit card. But in case of a credit card, it is a monthly postpaid bill payment system that takes place. [8]

2.4 Net Banking

It is another handy way to get cashless transactions done. All we need is a bank account with e banking facility enabled on it. We can transfer funds to others account from. There is no need of going to bank to get transfers done. We can make all payments and transfers ourself. This is a very convenient way to go cashless in India as well.

2.5 Aadhaar Card enabled payment system

It allows a person to pay using his aadhaar card if it is linked to our bank account. Once link aadhaar card to our bank, we can make payments using your finger prints.[11]

III. OBJECTIVES OF THE STUDY

The study aims to Examine Status of Electronic Payment System in India

IV. METHODOLOGY

The study is based on secondary sources of data/ information. Various books, journals, newspapers and relevant websites have been studied in order to make the study an effective one. The study attempts to examine the Digital Payment System in India.

4.1 DEMONETIZATION OF CURRENCY

In a major step to check undeclared black money, the Government of India on the 8 November 2016 announced demonetization of Rs 500 and Rs1000 banknotes with effect from the same day's midnight, making these notes invalid. Apart from combating black money, the stated purpose is also to check fake currency (used to finance terrorism) and corruption. A new redesigned series of Rs500 banknote, in addition to a new denomination of Rs 2000 banknote is in circulation since 10 November 2016.

4.2 BANKWISE VOLUMES IN ECS/NEFT/RTGS/MOBILE TRANSACTIONS

National Payments Corporation of India (NPCI) is pleased to announce that there has been an impressive surge in the usage of cards at Point of Sale (PoS) terminals at shops and other retail outlets. During (November 9 and 10, 2016), Cards usage on PoS / e-Commerce was around 8 lakh transactions a day compared with a daily average of 4 lakh transactions earlier. The value of transactions almost doubled. Using the PoS is even simpler than using on ATM. When there are restrictions on withdrawal of cash in the aftermath of demonetisation of notes, usage of payment cards at PoS for all day-to-day purchases is the ideal way to transact. Immediate Payment Service (IMPS) and Unified Payments Interface (UPI) usage has doubled. IMPS and UPI are 24x7 remittance service. India has 14 lakh PoS terminals and all the terminals accept all brands of debit and credit cards.[3]

V. RESULTS

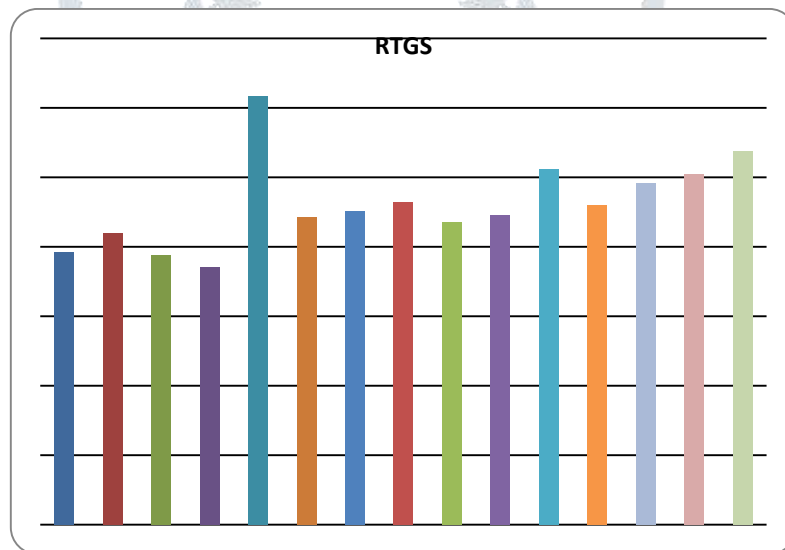


Fig 5.1 : Usage of Real time gross settlement (RTGS) (In Billions)

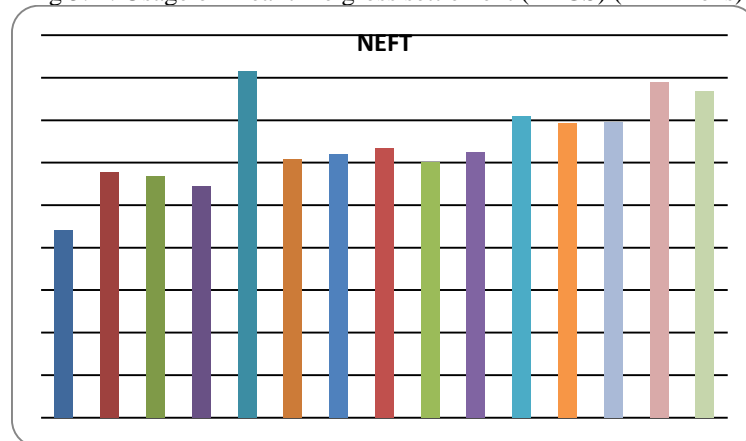


Fig 5.2 : Usage of National electronic funds transfer (NEFT) (In Billions)

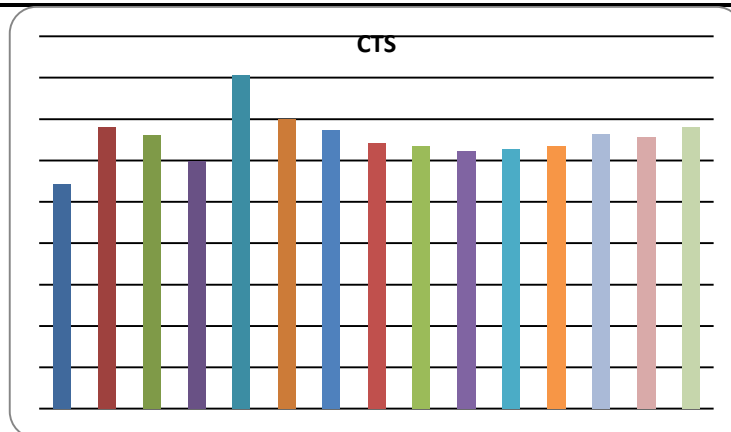


Fig 5.2 : Usage of Cheque truncation system (CTS) (In Billions)

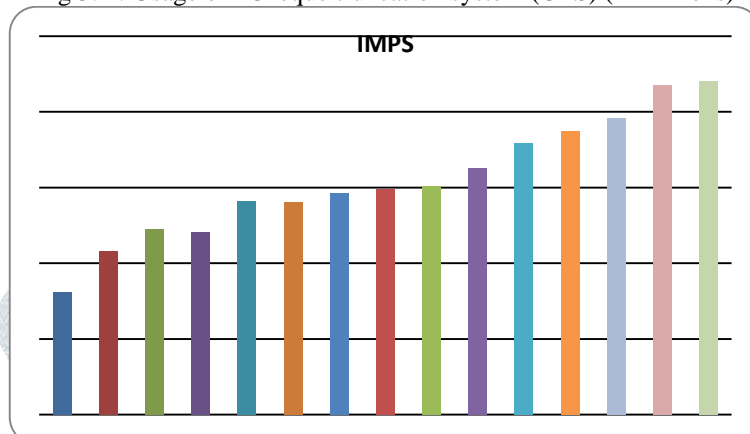


Fig 5.2 : Usage of Immediate payment service (IMPS) (In Billions)

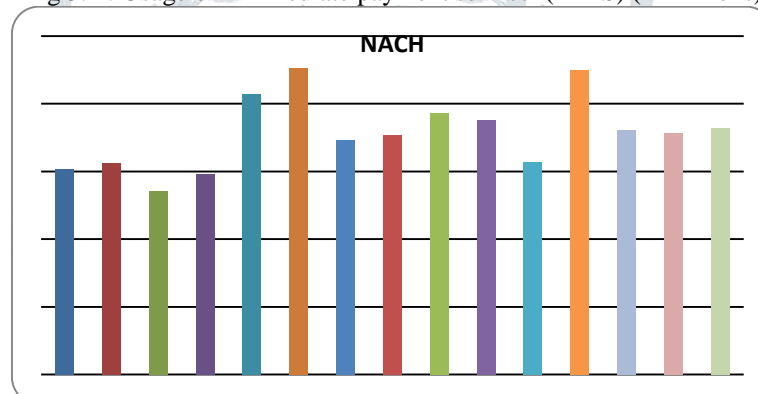


Fig 5.2 : Usage of National automated clearing house(NACH) (In Billions)

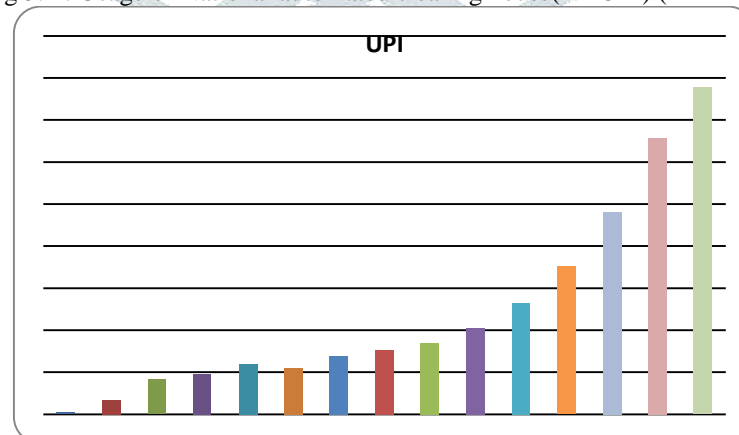


Fig 5.2 : Usage of Unified Payments Interface(UPI) (In Billions)

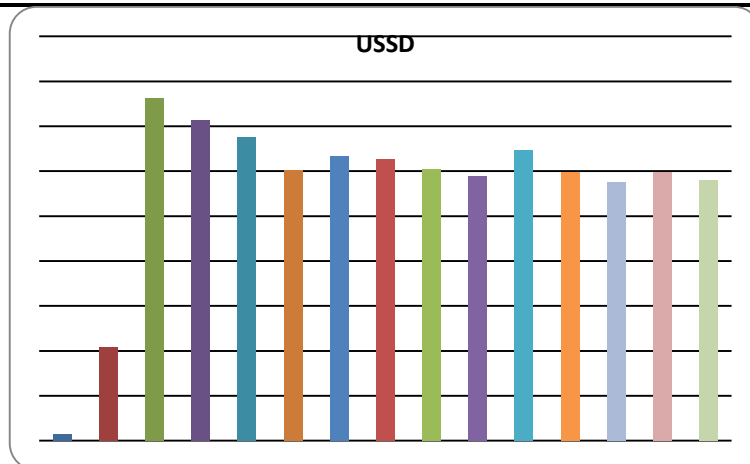


Fig 5.2 : Usage of National Unstructured Supplementary Service Data (USSD) (In Billions)

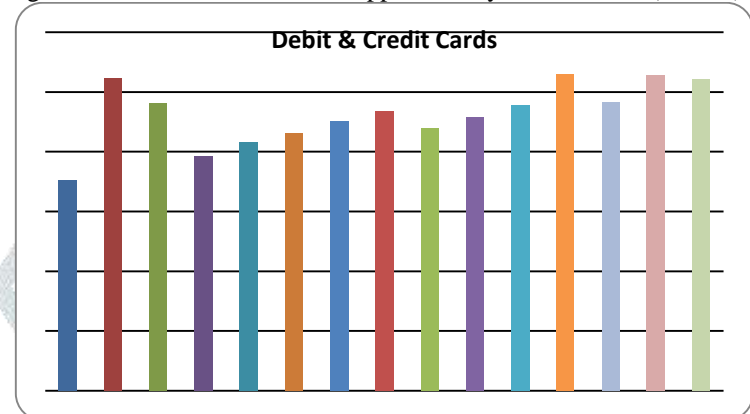


Fig 5.2 : Usage of National electronic funds transfer (NEFT) (In Billions)

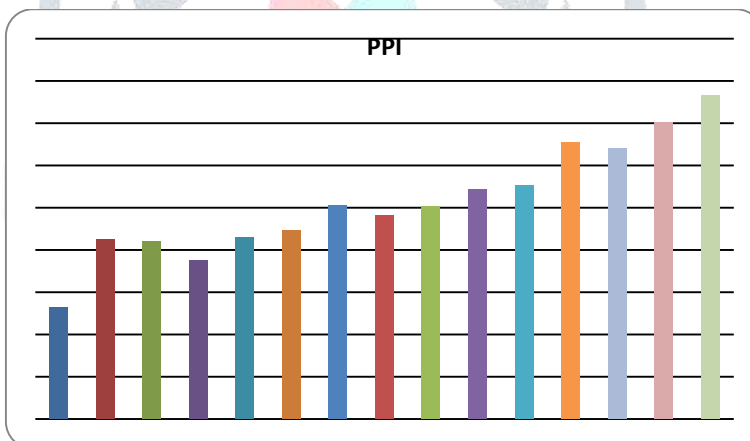


Fig 5.2 : Usage of Prepaid payment instrument (PPI) (In Billions)

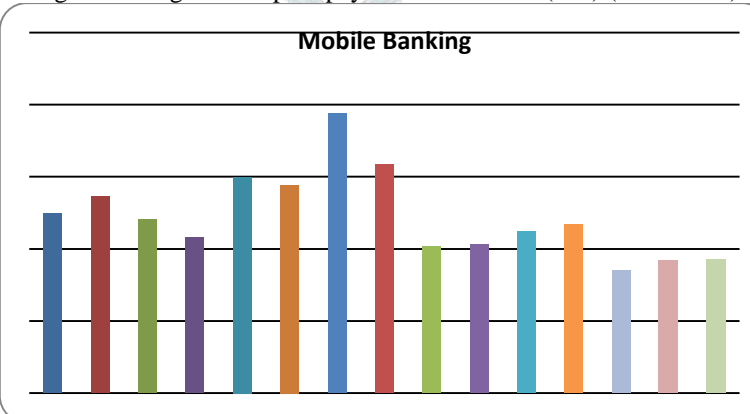


Fig 5.2 : Usage of National electronic funds transfer (NEFT) (In Billions)

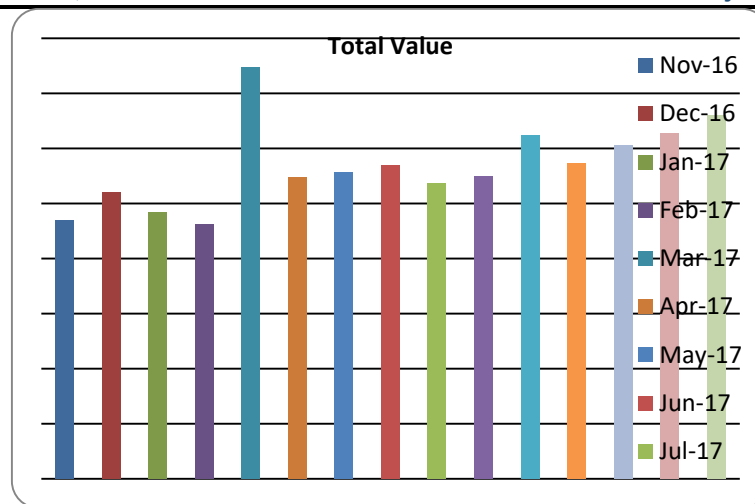


Fig 5.2 : Usage of National electronic funds transfer (NEFT) (In Billions)

SOURCE : <https://www.npci.org.in/> [15]

VI. CONCLUSION

Market leader Paytm, backed by Alibaba, says it is currently processing 20 million transactions a day and added over 14 million users. As much a more number of the merchants still do not accept digital payments because of the risks and cost of handling cash along with a fear of income loss after adopting digital payment solutions. Fear of an income loss can be a key determinant for merchants to adopt digital payment solutions. Reduced time, risks and costs of handling cash is another reason. A Confederation of Indian Industry (CII) - Deloitte India survey said. Sixty-seven percent of the merchants who accept digital payments said that they did so because of customer demand post-demonetisation. Customer demand and convenience are the primary reason for merchant's to accept cards and mobile-wallets," it added. There has already been an estimated two-times volume growth in point of sale machines' (PoS) usage and mobile wallet transactions post-demonetisation. The Demonetisation helped a lot to urban people in usage of various cash less transactions. While the rural people are unable to understand the concept of digital payments.

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