

# DEMONITISATION: ITS TYPES AND BENEFITS TO INDIAN ECONOMY

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## **ABSTRACT**

This paper focuses on the Demonetisation of most Rs 500 and Rs 1,000 bank notes in India. The main goals behind this move had been to uncover black money, to place check on corruption, curbing of terror funding, and demolish currency that is fake. Another motive regarding this is that the government was to produce a economy that is cashless. Cashless transactions have the good thing about transparency in other words all transactions can be tracked and traced. This helps the government to track payment to terrorist organisations along with other activities which are being anti-national.

According to Government of India the policy that is cashless will be felt in modernization of repayment system, Convenient mode of repayment, Capital development , Unearthing of black money, Tax collection enhancement , Terrorist and naxalites funding control, Transparency and tracking, Reduction into the price of financial service, Reduction in high security which also suppress banking associated corruption. Demonetisation has urged the economic climate that use less cash but has actually remaining various difficulties for India, who is just a currency dominated economy. The drawback is about the cashless economic climate is that not everybody has got the understanding of doing electronic deals and hence its reach is restricted to urban and semi-urban centers just. Driving a car that is biggest may be the risk of identity theft. Another demerit associated with economy that is cashless that electronic mode of payments like the card, wallet repayments, will involves some transactions fee that will be not the case with money deals. It can be slowly followed because of the people of the country as one can see from the aforementioned that cashless economy has actually advantages along with disadvantages and any government thinking about adopting cashless economy design should very carefully evaluate the merits and demerits.

## **Introduction**

On 8 2016, the Government of India revealed the demonetisation of all of the Rs 500 and Rs 1,000 banknotes november. Those two money records will be the most currency that is used the Indian market, it had 85% share on the market (Sahoo and Arora, 2017). Some also say this can be a Attack that is“Surgical “on black money. In easy words, old Rs 500 and Rs. 1000 notes tend to be worthless from today, they are only a sheet of paper. The Indian government had previous additionally demonetised bank notes on two previous occasions, once in 1946 then once again in 1978 as well as in both situations, the target would be to combat taxation evasion by "black money" held beyond your formal system this is certainly financial. In

1946, the pre-independence government hoped demonetisation would penalise companies that are Indian were hiding the fortunes amassed supplying the Allies in World War II. In 1978, the Janata Party coalition government demonetised banknotes of Rs 1000, Rs 5000 and Rs 10,000 rupees, again into the hopes of curbing cash that is counterfeit black money (Pattanaik, 2017).

### ***Meaning of Demonetization-***

Demonetization is definitely an work by which federal government of the nation strips the circulation of one or higher than one money unit of their condition as being a tender this is certainly legal. Demonetization is **the act of stripping a currency unit of its status as legal tender**. It occurs whenever there is a change in national currency. The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins.

### ***Types of Tender Money***

**Legal Tender Money-** By law, the currency currency swap should be accepted as a medium of monetary debt exchange and payment. Although all deferred paper money in circulation is usually legal tender, the face value and quantity of coins accepted as legal tender varies from country to country. It is also called legal tender. Demonetization of a country's currency by law, must be accepted as a medium of exchange and payment for a money debt. While usually all demonetization of the circulating paper money are legal tenders, the denomination and amount in coins acceptable as legal tender varies from country to country. This as also called lawful money. The legal tender money is of two types-

### ***Limited Legal Tender Money-***

**This** is a form of money, which can be paid in discharge of a debt up to a certain limit and beyond this limit, a person may refuse to accept the payment and no legal action can be taken against.

### ***Unlimited Legal Tender Money-***

In this form of money, which can be paid in discharge of a debt of any amount. A person who refuses to accept this money a legal action can be taken against. Paper note/currency are unlimited legal tender in India.

**Non- Legal Tender Money-** It is a form of money, which is generally accepted, but legally is not bound to accept it. Such as cheque, bank drafts, bills of exchange, postal order etc. are not legal tenders and are accepted only at the option of the creditor, lender or seller.

### ***Explanations for Demonetisation***

The main goals behind this move were to uncover black colored money, to put check on corruption, curbing of terror financing, and demolish money this is certainly fake. Another motive of the government would be

to develop a economy this is certainly cashless. Cashless transactions possess benefit of transparency in other words all transactions is tracked and traced. It will help the federal government to trace repayment to terrorist businesses along with other anti- tasks which can be nationwide.

### *Non-Tax Compliant Society*

It is noticed that into the year 2015-16, 3.7 crore assesses of the populace that is total of 125 crore, submitted income-tax returns. Out of these, 99 lakhs declared income below Rs 2.5 lakhs and paid no taxes. Rest regarding the 1.95 crores declared income significantly less than Rs 5 lakhs, 52 lakhs declared earnings between Rs 5 to 10 lalks, and only 24 lakhs declared earnings above Rs 10 lakhs. It demonstrates that our society that both in the situation of direct and indirect fees India continues to suffer being fully a hugely income tax culture this is certainly non-compliant.

**Table-1 status of cashless and corruption in selected countries**

Countries	% Non-cash payment	Corruption % index(2015)	Rank in corruption % index (2015)
Belgium	93	77	15th
France	92	70	23rd
Canada	90	83	9 <sup>th</sup>
UK	89	81	10th
Sweden	89	89	3 <sup>rd</sup>
Australia	86	79	13th
The Netherlands	85	87	5 <sup>th</sup>
USA	80	76	16th
Germany	76	81	10th
India	22	38	76th

Source: Yojna, February 2017

India ranks 76th in the corruption Perception Index. This demonstrates that there's a powerful correlation

which is certainly unfavorable. This is because of the cashless deal and corruption. This implies greater the exchange that is cashless or the corruption. The way that is better to reduce corruption and black money in the economy is to go from an economy dependent predominantly on cash to electronic transfers, which needs universal financial access and center.

### ***Digital Transaction***

A digital transaction is a seamless system involving one or more participants, where transactions are effected without the need for cash. The digital transaction involves a constantly evolving way of doing things where financial technology companies collaborate with various sectors of the economy for the purpose of meeting the increasingly sophisticated demands of the growing tech-savvy users.

### ***Understanding Digital Transactions***

As the needs of investors and financial service users become more complex, there is a demand for effective tools to simplify the processes and transactions carried out by end-users. It is inevitable that financial institutions would have to increase the number of digitized services and offerings, given a rise in the use of automated services.

Implementing technology in the financial industry is a necessity for the survival of businesses as customers seek lower-cost alternatives to traditional financial services. Fintech companies have led the revolution in transforming the financial sector by digitalizing the end-client's transactional eco-system.

### ***How Digital Transactions Work***

A digital transaction converts a traditional cash-operational society to a cashless one. It can be anything from paying for goods at a brick-and-mortar store to transferring money online to making investment trades. Here's an example of an everyday transaction that looks quite simple but is actually embedded with digital intricacies every step of the way:

Jane pays cash every time she goes to the grocery store (Fresh Chain). This means that every time she runs out of cash, she has to make a trip to her bank (Future Bank) in order to replenish her wallet. Unfortunately, if she needs some cash after closing hours or on a weekend, she will have to wait until the next workday when Future Bank is open for business. To include Jane in the digital finance world, Future Bank gives Jane a debit card linked automatically to her checking account. The next time Jane goes grocery shopping at Fresh Chain, she swipes her card through a hand-held payment processing device known as a Point of Sale (POS). The payment is made in seconds and Jane goes home satisfied.

Now let's look at the behind-the-scenes digital transaction. The debit card issued to Jane is a Visa card. Visa creates cards like Jane's which has a magnetic stripe that stores information digitally. When Jane swipes the magnetic stripe against the POS or payment processor, the transaction information is transferred to Visa. The payment processor acts as the intermediary between Visa and Fresh Chain. Visa makes note of the information received from the payment processor and forwards it to Future Bank for approval. Future Bank confirms that Jane has the necessary funds in her checking account to complete her purchase and authorizes the transaction. Visa then relays this information through the POS machine as an authorized transaction.

The exact amount of the transaction is debited from Jane's checking account and a percentage of this amount, say 98%, is credited to Fresh Chain's account. The remaining 2% is shared between Future Bank and Visa as their fee. Although the process seems lengthy, it actually happens in seconds.

### ***Digital Transaction Benefits***

The example of a digital transaction above was made to show how the benefits of technology adaptation outweigh the costs for businesses, financial institutions, and end-users. Still, there are digital initiatives that come up to disrupt the previous digital transaction setups. Just as credit cards are disrupting the use of cash, processes like online transactions are disrupting the regimen where physical presence and credit cards, respectively, are required for transactions.

The e-commerce portal has provided a means by which buyers and sellers can engage in digital transactions; cloud service platforms have provided a digital process for storing data; crowd funding gateways have provided a means by which individuals and startups can have access to funds; peer-to-peer lending forums have provided a way for individuals to lend to and borrow from each other without the hassles of the traditional banking regulation. These all constitute digital transactions that may eventually get disrupted by new inventions over the years.



Different types of digital deals From commonly used cards to recently launched UPI, digital repayments has its own kinds of repayment. Some settings meant for tech-savvies and some for less-technical persons. Here are the various settings of electronic payments

### ***UPI applications- unified payment screen***

United repayment software is really a payment mode which is used to produce fund transfers through the software this is certainly cellular. You can easily transfer resources between two records utilizing UPI apps. You shall need certainly to register for cellular financial to make use of UPI apps. Presently, this continuous solution is just available for android phone people. Hence you need to use UPI only once you have an phone

this is certainly android. There are too many good UPI applications readily available such as for example BHIM, SBI UPI application, HDFC UPI application, etc. It's not necessary to utilize the UPI app from your own lender to enjoy UPI service. We can install and make use of any UPI software. UPI applications really are a faster answer to send cash VPA that is utilizing or IFSC and account number (Wikipedia, 2017).

### ***AEPS- Aadhaar Enabled Payment Service***

AEPS can be an Aadhaar centered payment mode that is digital. Consumer needs only his or her number that is aadhaar to to any merchant. AEPS enables bank to bank deals. The funds is supposed by it you spend are going to be deducted from your account and credited towards the payee's account straight. We must link your number this is certainly aadhaar with bank account to use AEPS. Unlike cards and USSD, AEPS does not have any costs on transactions. You should use AEPS with the aid of PoS (Point of purchase) machines. The matter that is great AEPS is the fact that it doesn't require your trademark, bank account details or any code. It uses your fingerprint as being a code. Nobody can create your fingerprints, hence it's the most dependable payment that is digital (Wikipedia, 2017).

***NEFT-National Electronic Fund Transfer*** (upto 2 lakh) National Electronic Funds Transfer (NEFT) is a repayment that is nation-wide facilitating one-to-one funds transfer. Under this Scheme, individuals, companies and corporates can move funds from electronically any bank part to virtually any individual, firm or corporate having a free account with some other bank part in the united kingdom playing the Scheme

### ***RTGS-Real Time Gross Settlement***

Real-time settlement this is certainly gross (RTGS) is a resources transfer system where cash transfer happens from a single bank to a different on a "real time" foundation and "gross" basis. Settlement when you look at the time this is certainly "real means that the deal takes place virtually straight away

***IMPS- Immediate Payment Service (for Urban Area)*** Immediate Payment Service (IMPS) is definitely an instant real-time inter-bank resources which are digital system in India. IMPS offers an inter-bank fund this is certainly digital service through smart phones. The service is present 24/7 throughout every season including bank vacations unlike NEFT and RTGS.

### ***BHIM- (Bharat user interface for money)-***

BHIM (Bharat screen for Money) is just a Mobile App developed by National Payments Corporation of India (NPCI), considering the United Payment Interface (UPI). BHIM enable people to send or receives a commission to or from UPI repayment addresses, or even to non-UPI based accounts (Sahoo and Arora, 2017).



**RuPay-** Indian type of a debit or charge card for Jan Dhan account holders

RuPay can be an indian card that is domestic conceived and launched by the National Payments Corporation of India (NPCI). It had been created to fulfil the Reserve Bank of India's want to have a domestic, open loop and multilateral system of payments in India (Sahoo and Arora, 2017).

### ***Advantages of a economic climate that is cashless***

**Convenient mode of payment-** The ease of conducting financial deals is probably the motivator that is biggest going electronic. You certainly will not want to carry wads of cash, plastic cards, and on occasion even queue up for ATM withdrawals. It's additionally a less dangerous and simpler investing alternative if you're traveling.

**Reduced danger-** If stolen, you can easily prevent a credit card or wallet this is certainly cellular, however it's impractical to get cash return. "In that good sense, the option this is certainly digital limited security," says Pai. This is especially valid while travelling, especially abroad, where lack of cash can cause inconvenience this is certainly great. Besides, if the futuristic cards evolve to utilize biometric ID (finger marks, eye scan, etc), it can be very difficult to copy, making it a really choice that is safe.

**Capital formation-** Since all deals is supposed to be done through organized channel that is through banks and banking institutions it results in increase in taxation revenue when it comes to government as all money deals that have been done illegally come right into banking system which often helps the government in monitoring all deals and taxation that is levying them which often can be used because of the government for betterment of economic climate for the country (Parikh, 2017).

**Unearthing of black money-** It is better to keep track of the black money and unlawful deals because if cash is employed straight for performing transactions you can easily track the deal as all documents are there using the banks which result in more clear transactions which in turn leads to fall in corruption throughout the economy for the nation (Parikh, 2017) than it's not very easy to keep track of the deals as the cash does not come into the bank system however in instance of electronic transactions.

**Tax collection improve-** Taxation, with smaller availability of income at homes and more in banks, there is lesser scope of hiding income and evading taxation when there are more tax payers it ultimately leads to a lesser price of taxation for the country that is whole (Shendge, Shelar and Kapase, 2017)

**Terrorist and naxalites financing control-** When people ought to get cashless, there was lesser cash available because of the folks and there won't be a way to invest in other activities to make use of the money this is certainly idle. Channels like hawala (illegal remittance) will ultimately suffer the brunt of the economic climate that is cashless.

**Transparency and monitoring-** It becomes a total good deal better to track the Flow of cash with every exchange becoming recorded using the buyer, vendor as well as regulatory bodies, making the functional system more transparent and compliant. In the term that is long leads to much better company and investment prospects when it comes to economy all together

### ***Challenges of a economic climate that is cashless***

Demonetisation has actually encouraged the economy that is entire usage less money but has kept numerous challenges for the people and also for the federal government.

**Rural economy-** India is really a currency dominated economy. It is observed amount that is most of blood supply in India. Cash in blood supply quantities to around 13 % of India's GDP. In rural areas, you can find only 20.8 percent of ATMs of public industry banking institutions and 8.5 % of the ATMs of personal industry banks. It means very hard to send an ATM within a location this is certainly ruralSaurabh, 2017).

**Illiteracy and Inadequate infrastructure-** The disadvantage this is certainly biggest for the cashless economic climate is that nobody has the knowledge of doing digital transactions thus its reach is restricted to urban and semi-urban facilities just and as a consequence it's very difficult to apply cashless economic climate into the huge nation where many sections of the community in outlying areas is illiterate and bad. Therefore having less correct infrastructure and education among citizens is disadvantageous so far as the economy this is certainly cashless concerned .

**Cyber safety risks-** driving a car that is biggest could be the threat of identity theft. Since we're culturally not attuned to deals that are electronic even well- educated folks run the risk of dropping into phishing traps. The risk of hacking will simply develop as more people hop on into the electronic system utilizing the rising incidence of web fraud. Transaction cost- Another demerit regarding the economy that is cashless that digital mode of repayments like the charge card, wallet repayments, internet banking involves some deals fee which is far from the truth with money transactions and hence any specific thinking about doing online transactions takes into account these exchange expenses and won't favour online medium of deals. Hence the current presence of deal price is a hindrance to economy that is cashless acceptance one of the people of the nation (Parikh, 2017).

### ***Conclusion***

Achieving a whole economic climate that is cashless never be possible, but one could always begin with a less cash community and then move towards getting mostly cashless. It could be gradually adopted by the people of the united states as one can see from the above that cashless economy features benefits in addition to disadvantages and any government thinking about following cashless economy design should carefully evaluate the merits and demerits then take the choice since the cashless economic climate may not be enforced on the men and women instead.



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