

A Study on The Impact of Demonetization in India With Special Reference to Electronic Payments Like Rtgs, Neft, Mobile Banking And Point of Sale.

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Abstract: India's sudden action of demonetization was to control the flow of black money and fake currency. The government made this high risk economic intervention in the world's largest democracy to reduce corruption too. But it was not completely achieved. Although the impact on corruption remains to be seen, demonetization experiment has generated some important thinking about cash, corruption and the digital economy. The aim of this process was to wipe out the counterfeit currency, scrap tax evasion, abolish black money generated out of money laundering and terrorist funding activities, and to promote a cashless e-economy.

The purpose of this study is to compare and analyze the impact of demonetizations and their significance in the economic development of India. The research study was conducted to identify the impact of demonetization on electronic payment like RTGS, NEFT, Mobile banking and point of sale. Moreover everyone would be able to know the impact of note banned decision on electronic transactions in Indian banking sector.

Keywords: Demonetization – high denomination notes – NEFT – RTGS – Mobile Banking – POS –Electronic banking

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I. Introduction

The demonetization of the highest denomination currency note is a part of several measures undertaken by the government to address tax evasion, counterfeit currency and funding of illegal activities. 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 Rs500 and Rs1,000 notes. Facilitating faster payment services The payments eco-system in the country provides multiple options to different segments of users for funds transfer as well as for making payments in exchange of value for goods and services. 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.

Indian economy has, until November, been rather a dependant on cash. The paper notes are the part and parcel of the way Indian economy wishes to spend and save money. However, the sudden announcement of the demonetization has stirred a new wave in the adoption of the digital payments across the nation. The process of digitization in India will take less than 12 months to 18 months as compared to a period of 5 years to 8 years. Growth and acceptability of electric money, lead to various forms of systems, which improved the use of these systems through different devices one of the most significant ones, was Electronic Payment System (EPS). India continues to be driven by the use of cash; less than 5% of all payments happen electronically however the finance minister, in 2016 budget speech, talked about the idea of making India a cashless society, with the aim of curbing the flow of black money.

Objective of the Study

- ❖ To study the impact of demonetization on NEFT (National Electronic Fund Transfer system), RTGS (Real Time Gross Settlement), Mobile Banking and POS (Point Of Sale).
- ❖ To understand effect of electronic transaction in pre and post demonetization period.

Research Methodology

This study has been carried out on Demonetization impact on E-Payment. Data used in this study is

collected basically from the secondary sources. Primary data also collected through personal interview with the person who is supposed to have knowledge about the topic. A study of 5 banks is made based on volume of transactions during the post and pre-demonetization period. The empirical-analytical approach employs deductive reasoning that uses existing theory as a foundation for formulating hypotheses that need to be tested. This approach is focused on explanation.

Descriptive coefficients that summarize a given data set, which can be either a representation of the entire population or a sample is the tool used for the study.

Average method is also used for the study. An average is a middle or typical number of a list of numbers. Different concepts of average are used in different contexts.

Data Analysis & Interpretations

Demonetization is the stripping a currency unit of its status as legal tender. Demonetization becomes a necessary when there is a change of national currency. The old unit of currency has to be retired and replaced with a new unit of currency.

In India demonetization has happened thrice.

- A. The first was on the 12th of January 1946(Saturday)
- B. Second on 16th of January 1978 (Monday)
- C. Third was on 8th of November 2016 (Tuesday).

In the January of 1946, notes of denominations 1,000 and 10,000 rupees were withdrawn from circulation and new notes of denominations 1,000, 5,000 and 10,000 rupees were introduced in 1954.

Then government again demonetized banknotes of denominations 1,000, 5,000 and 10,000 rupees on 16th of January 1978 with the notion of curbing counterfeit currency and black money. The demonetization of denominations Rs. 500 and Rs. 1,000 banknotes was a policy decision carried out by the Government of India on 8th of November 2016 and was also announced that the new Rs. 500 and Rs. 2,000 banknotes of the Mahatma Gandhi New Series will be issued in exchange for the above mentioned old currency notes. The Indian government claims that the demonetization effort is to stop the counterfeiting of the current currency notes allegedly used for funding terrorism across the border by the neighboring countries. The supply of currency notes of all denominations has seen an increase by about 40% during the period between 2011 and 2016, the Rs. 500 and Rs. 1,000 denomination notes has increased by 76% and 109% respectively during this period due to forgery. By announcing the larger denomination notes to be useless, the individuals and various black money launderers with huge collection of black money generated from the parallel black cash systems were affected and made to convert the cash money through a banking system which requires tax information from the entity. In case, if the entity is not providing any proof of paying any tax on the cash, a 200% penalty of the tax owed was imposed. Besides combating black money, the purpose mentioned is also to curb fake currency (financing terrorism) and also corruption.

Positive Effects of Demonetization

- ❖ **Black money:** At one stroke the Prime Minister has choked the supply of black money stacked inside the country. Of the Rs 17 lakh crore of total currency in circulation in the country, black money is estimated at mind-boggling Rs 3 lakh crore.
- ❖ **Economy:** Demonetization will have a huge resultant effect on the Indian economy. The clean-up of illegal cash will help turn around the economy. First, it will bring more borrowings to the exchequer, improve inflation outlook and increase India's gross domestic product (GDP). Second, it will revive investment opportunities and give a fillip to infrastructure and the manufacturing sector. Third, it will help reduce interest rates and lower income tax rate.
- ❖ **Real estate cleansing:** It is said that real estate is an industry built on black money. The extent of black money floating around in the sector is huge. According to an estimate at least 40 per cent of real estate transactions in Delhi-NCR are in black.
- ❖ **Hawala transactions:** Demonetization has crippled the hawala rackets. Hawala is a method of transferring money without any actual money movement. Hawala route is used as a means to facilitate money laundering and terror financing. Hawala rackets run again on black money.
- ❖ **Counterfeit currency:** Demonetization has dealt a death blow to the counterfeit Indian currency syndicate operating both inside and outside the country. Counterfeit currency seriously devalues the real worth of Indian currency.
- ❖ **Terror financing:** Terror financing is sourced through counterfeit currency and hawala transactions. This is how terror financing works. Fake currency circulation is routed through a multi-layered network of hawala operators which are closely linked to satta (gambling) and smuggling of drugs, opium and arms.
- ❖ **Maoism:** Maoist sympathisers call demonetisation move an —undeclared financial emergency. There are

reasons to it. Demonetisation has hit the Maoists and their movement hard. Black money is the oxygen for Maoists. According to an estimate, Maoists manage to raise Rs 300 to Rs 400 crore annually through donations, levy and extortions. The illicit money is used to purchase arms and ammunition, food and medicine and daily essentials, apart from distributing it among the ranks and the cadre.

Introduction electronic payment

Today's societies have recognized information and knowledge as invaluable resources which are very essential element for better living conditions... The astonishing growth and sophistication of information and communication technology (ICT) is changing societies' ways of life in various parts of the world. One of the leading areas where this is manifested is the way business is conducted. The growth of the internet and World Wide Web (www) has made electronic commerce (e-commerce) possible. E-commerce in its simplest sense is trading electronically. It offers consumers and merchants convenience and speed. The success and growth of e-commerce, however, depends on efficient electronic payment (e-payment) system. The slogan 'no e-payment, no e-commerce' witnesses the importance of e-payment for e-commerce. E-payment, the transfer of value electronically, in turn depends on secure ICT infrastructure, efficient legal and regulatory regime, and widespread awareness among the public and business. In the last two decades, electronic payment systems (EPS) have attracted much attention from researchers and information system designers due to their vital role in modern electronic commerce. This led to wide and in-depth researches that produced different perspectives on e-payment definitions among others.

(1) National Electronic Fund Transfer System (NEFT)

National Electronic Funds Transfer (NEFT) is an Indian system of electronic transfer of money from one bank or bank branch to another. The banks or their branches that support such transactions have to participate in the NEFT network. An updated list of banks and branches that are NEFT-enabled can be found on the Reserve Bank of India (RBI) website.

Table No: 01

	August	September	October	November	December	January
Outward Debits	3822812.22	4235403.15	4190241.49	3832041.04	4892218.15	4767105.40
Inward Credits	3625984.10	4289721.53	4092014.09	3673935.09	4862803.66	4719069.85

Source: Secondary data

The table shows that during November, there was a sharp increase in NEFT inward as well as NEFT outward remittances. On the other hand during pre-demonetization period there is no noticeable increase or decrease in NEFT inward as well as outward remittances. As the situation of cash availability increased during January, 2017, the figure slightly showed a decreasing trend. So it can conclude that during demonetization period there was a sudden hike in the NEFT inward credits and outward debits.

(2) Real Time Gross Settlement (RTGS)

Real-time gross settlement are specialist funds transfer systems where the transfer of money or securities takes place from one bank to another on a "real time" and on a "gross" basis. Settlement in "real time" means a payment transaction is not subjected to any waiting period, with transactions being settled as soon as they are processed. "Gross settlement" means the transaction is settled on one-to-one basis without bundling or netting with any other transaction. "Settlement" means that once processed, payments are final and irrevocable.

Table No: 02

	August	September	October	November	December	January
Inward Debits	34435.12	38220.29	34237.05	34620.31	37679.15	35317.61
Outward Credits	35226.33	39455.33	34404.70	35429.31	38339.22	36601.38

Source: Secondary data

Amounts are in Millions

The above table shows that RTGS remittances slowly increased from October, 2016 to November 2016 and then sharply increased during December 2016. Then a decreasing trend can be noticed during January. This may be because of the increased liquidity position due to the availability of currency. It is clear from the graph that during demonetization RTGS remittances were high compared to the previous months.

(3) MOBILE BANKING

Mobile banking is the act of doing financial transactions on a mobile device (cell phone, tablet, etc.).

This activity can be as simple as a bank sending fraud or usage activity to a client's cell phone or as complex as a client paying bills or sending money abroad. Advantages to mobile banking include the ability to bank anywhere and at any time. Disadvantages include security concerns and a limited range of capabilities when compared to banking in person or on a computer.

Table No: 03

Mobile	August	September	October	November	December	January
Value	79323354 9	755857426	809060422	990358811	104253253 5	873217364

Source: Secondary data Amounts in '000

The table 3 shows that usage of Mobile Banking services highly increased during the period of November and December, 2016. Shortage of currency availability compelled the people to use mobile banking services as a means of payment. As the situation relaxed during January, 2017, we can notice the decreasing trend. It can be concluded that there is a noticeable rise in the mobile banking services during the demonetization period

(4) Point Of Sale (POS)

Table No: 4.1

	August	September	October	November	December	January
Credit card	164857.65	153405.15	197302.96	170229.40	202935.3	212065.1

Source: Secondary data Amounts in Millions

The table 4.1 shows that there was minor changes in use of point of sale transaction using credit card during August and September, and then increased during October. The graph clearly states that there was an increase trend during November as a result of limited availability of notes. The increased trend continues till January. It can be concluded that there was a notable increase in the use of credit cards in point of sale transactions during demonetization.

(5) Point Of Sale (POS)

Point of Sale (or POS in its abbreviated form) is the phrase used to refer to the point—or location—where a sales transaction takes place, such as a checkout line or retail counter. A Point of Sale System is the term used for the combination of computer hardware and software that actually manages the sales transaction. There are many benefits of using a point of sale system over a traditional cash register, since a computer is able to capture, store, share, and report data (such as sales, payment, or customer information).

Table No: 4.2

	August	September	October	November	December	January
Debit card	90866.82	84807.99	123262.92	166436.95	298604.2	247138.9

Source: Secondary data Amounts in Millions

The figure 4.2 shows that use of point of sale transaction using debit card sharply increased during the month of December 2016, and then showed a decreasing trend as in the case of other electronic payment methods. The graph clearly states that there was an increasing trend during the period of August 2016 to November 2016 in the usage of debit cards in point of sale transaction. It can be concluded that there was a noticeable hike in the usage of debit card in point of sale transaction during the period of demonetization process.

Average Method

Table No: 5 Pre-demonetization

(1)		(2)	(3)	(4)
		Amount	(2)/1000	(3)/3
NEFT	Outward Debits	12248456.86	12248.46	4082.82
	Inward Credits	12007719.72	12007.72	4002.57
RTGS	Outward Debits	109086360	109086.36	36362.12
	Inward Credits	106892460	106892.46	35630.82
Mobile banking		2358151	2358.151	786.05
POS	Debit card	298937.73	298.94	99.65

	Credit card	515565.76	515.57	171.86
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Source: Secondary data

The above table shows that during using average method RTGS inward as well as outward remittances were high compared to other electronic payment methods. NEFT inward and outward remittance is slightly above mobile banking. It is clear that point of sale transactions were really low during pre-demonetization period.

Table No: 06 Post-demonetization

	(1)	(2)	(3)	(4)
		Amount	(2)/1 000	(3)/3
NEFT	Outward Debits	13491364.59	13491.36	4497.12
	Inward Credits	13255808.6	13255.81	4418.60
RTGS	Outward	110369910	110369.91	36789.97
	Inward	107617070	107617.07	35872.36
Mobile banking		2906108	2906.108	968.70
POS	Credit card	585229.8	585.23	195.08
	Debit card	712180.05	712.18	237.40

Source: Secondary data

The above table clearly shows that RTGS inwards and outwards remittances are still high compared to NEFT, POS and Mobile banking during post demonetization period. It can be concluded that all the electronic payment methods are slightly more during post-demonetization period than pre-demonetization period using average method.

Table No: 07 Post-demonetization

E-payment	Pre-demonetization	Post-demonetization
NEFT	24256176.58	26747173.19
RTGS	215978820	217986980
Mobile Banking	2358151	2906108
POS	814503.49	1297409.85
Total	243407651.07	248937671.04

Source: Secondary data

The table 7 shows an increase of 2.27% in total electronic transaction such as NEFT, RTGS, Mobile Banking and POS after the demonetization period. The actual increase in the above total electronic transaction comes to 5530019.97 million.

Findings

- ❖ There was a clear increase in NEFT inward and outward remittances during the period of demonetization
- ❖ RTGS remittances also sharply increased during the period of demonetization
- ❖ Mobile banking services shows an increasing trend at the times of demonetization and slowly decreased due to the availability of cash later.
- ❖ POS transactions using credit card has minor variations at the time of demonetization, whereas POS transactions using debit card shows major variations.
- ❖ Online payments has been growing at a good pace after demonetization
- ❖ Among other electronic payments RTGS remittances are more in both post and pre demonetization period.
- ❖ An increase of 2.27% is noticed in the total electronic transactions of post demonetization period.

II. CONCLUSION

There is growing literature that points out to the possibility of changes in spending behavior as a result of moving to instruments other than cash. There are many substitutes for cash in the modern economy ranging from cheques, debit cards, pre-paid cards, credit cards and mobile wallets. In fact we can say that demonetization has paved way for online payments. Digitalization is the ultimate solution for all the money problems which forced to announce the demonetization of all ₹500 and ₹1,000 banknotes of the Mahatma Gandhi Series. It is clear that the spike in digital transactions is driven by demonetization. It also shows a forced change in the behavior of people since they had no other option.

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