

# Collaborative Study on Impact of Demonetization & Implementation of Cashless Transaction

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## Abstract

The introduction of demonetization is an attempt to address the resolve against corruption, black money, terrorism and counterfeit notes. This move is expected to cleanse the formal economic system and discard black money at the same time. The impact of this move will be felt across various sectors with differing intensities like for some sectors it is a good deal and for others it is a pain. Here the study has been made collaboratively by considering the Technical and Economical aspects regarding demonetization. Some of the economical facts includes liquidity imbalance and deflation effect [2]. The technical problems like banks running of cash, servers crashing and ATM shutdowns has worsened the problem. Both occurs because the gateway to put money in to bank is freely open but the exit gate to take money out is constricted. At this point a good solution is needed, that comes in the term of "Cashless Transaction". Creating cashless society by means of Digital Transaction Systems, E Wallets and Apps, Online transactions using E banking, usage of Plastic money (Debit and Credit Cards), etc increases in demand. But it is not an easy task since perfect infrastructure is required for a significant upgrade of the banking system as well as in the telecom infrastructure that would provide the backbone for digital transaction [6].

## Keywords

Demonetization, Cashless Transaction, Digital Transaction System.

## I. Introduction

Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit. Recently, In 2016, the Indian government decided to demonetize the 500- and 1000- rupee notes, the two biggest denominations in its currency system; these notes accounted for 86% of the country's circulating cash. Its consequences move towards the cashless transaction. Digital transactions bring in better transparency, scalability and accountability.

## Demonetization

Demonetization increases the deflation rate due to the decrease in inflation [2]. Since the decline in general price levels increase the value of money. The main economical aspect is covered through this demonetization. It includes merits as well as demerits in various levels [1][2][4].

### Merits:

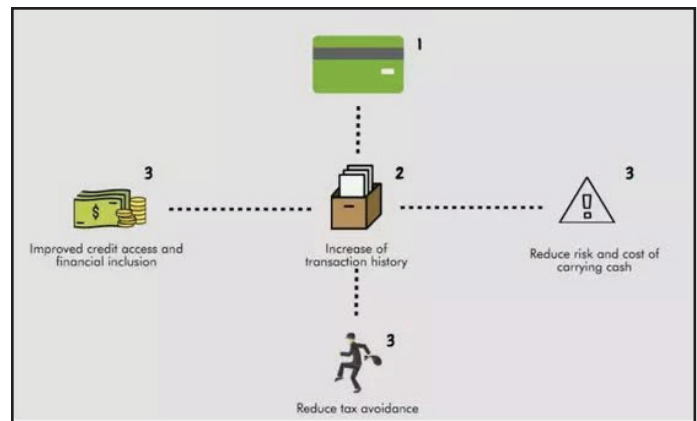
- It reduces the black money, Corruption, Terrorism, and counterfeit money.
- Smuggling, Espionage and terrorist related activities will be choked due to lack of funding.
- With the limited ATM, Card Payment System will increase, which slows down the cash transaction.
- Transparency occurs in all sectors.

### Demerits:

- The foremost is inconvenience to common people especially for illiterates.
- Half of the population were not well versed with the card transaction. (As per World Bank Report)
- The circulation of new money cannot be done immediately which takes much time, which creates practical difficulties.
- The regulatory system of RBI regarding the inflation

occurrence due to the printing notes for a period of time will gets affected [3].

## II. Need for Cashless Society



When all the transaction becomes cashless the process of tracking the amount exchange will be very easy, since everything recorded. The Tax payment also become regulatory since the banks shares the information with the Income Tax department. In other term hard money changes to Digital money.

Cashless Economy is a long term process, which makes all the transactions in digital means through the electronic payment system. Digitalizing everything is not an easy task; it has some challenges like Mandatory Bank Account, Internet Connection & financial literacy.

Apart from this RBI supports for cashless transaction by promoting Mobile Wallets, through which the users can send money, Pay bills, Recharge Mobiles, send e-gifts both online and offline. E-commerce is also liberalized from FDI norms. Some of the systems like UPI (Unified Payment Interface), USSD (Unstructured Supplementary Service Data), AEPS (Aadhar Enabled Payment System) [6] was also introduced, which makes the Electronic

transactions simple and fast. Another important is the surcharges and the service charges on cards & digital payments are withdrawn.

**A. E-Wallet**

Using the Smart phone with the internet connectivity, online account can maintain. Examples includes paytm, Mob wiki etc. The transaction process for these are done by using the mobile number as a wallet account. Money can be loaded through the Credit card or debit Card. So the amount transaction can be done simply by using the Mobile number.

**B. UPI**

In this method the bank account is used for registration only and the transaction are done with the Mobile App accessed with Internet connection. Registration needs Virtual Payment Address (VPA). Highlight is Account details are not required.

**C. AEPS**

With the Aadhar Card and PoS (Point of Sale), Micro ATM the transaction can be done. It needs biological information like the finger print for process. And also by providing the Aadhar card linked with bank.

**D. USSD**

With the Bank Account and any mobile phone on GSM network, transaction process takes place. The link should be created for mobile number and bank account, which also be possible through online. MMID – Mobile Money Identifier and MPIN -Mobile Pin will be generated through this all services can access. The statistical report of RBI shows that the Number of transactions using mobile wallets doubled in a year in the same period.

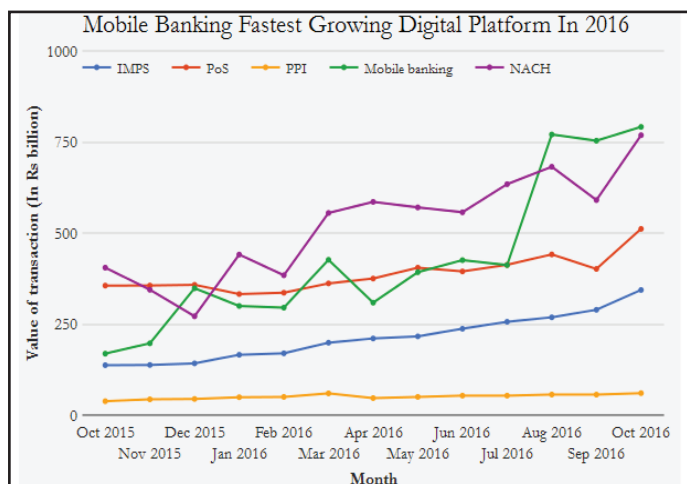


Fig [1]

**III. More on Cashless Transaction**

Here the figure [2] shows the complete process of Cashless transaction.

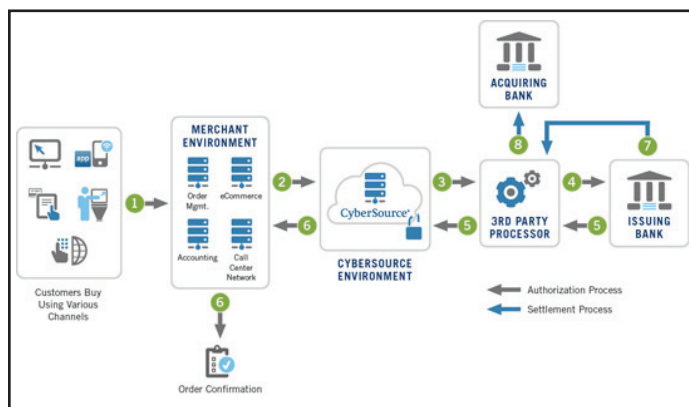


Fig [2]

Even though the facilities provided are lot enough, there is some needs yet to be done to over come the issues like safe and secured infrastructure. This can be achieved by minimizing the cyber crimes.

**A. Security Issues**

RBI prescribed many ways for cashless transaction for the economical growth of India.

The protective measures also given by RBI by establishing rules to prevent money laundering, customer redressal mechanisms, etc. It fails to prescribe the standards for security for non banks.

Regarding security the adequate data security infrastructure and systems for the prevention and detection of frauds is available. But, there is no minimum standards of security to be followed in wallet are not prescribed. Still need a complete security measures.

Technically, under the Information Technology Act, 2000. Section 43A is sole clause which provides for security and privacy of the information held by private corporations. Under this section e Wallet providers (fintech) are mandated to maintain “Reasonable Security Practices and procedures” and all those should documented. If any loss is caused the customer is liable to compensated without any upper limit on the amount of compensation.

As customers increasingly turn to digital payments, it is necessary to establish the level of security. One such option is Mandatory Cybersecurity Audit on annual basis. On other side the security at technical level plays a role.

Apart from legal issues the technical part to provide security as cyber source environment should also be enhanced with upcoming technology to provide security as a mandatory.

Technology will be the driving force that boost economy and help minimize corruption. In other words we can say Technology plays a vital role, since because all these Payment and Cashless Transaction comes under IoT (Internet of Things).It provides advances in liability, accuracy.

**IV. Conclusion**

The transformation of the current payment method to a total cashless one may not be possible in the near future, but continuous innovation in technologically aided payment system will certainly expand the society’s accessibility to cashless payment. Although the adoption of one type of cashless payment will affect another type of cashless payment in the short run, the consequences of adopting cashless payment on economic growth can only be significantly observed in the long run. Hence, any policy that promotes cashless payment will not affect the economy immediately.

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