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# DEMONETIZATION AND CASHLESS TRANSACTIONS

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## ABSTRACT

*Traditionally, India is cash based economy and the recent announcement “Demonetization” is an ambitious move towards a cashless economy. With the announcement of demonetization the use of plastic money, mobile wallets have increased. Though the government of India urged and made advances for cashless transactions, India continued to be a cash-usage economy. Demonetization is one of the way to crack down on black money and fake currency and move towards a cashless economy. This study concentrates on what demonetization is all about, what are the different modes of cash less transactions and the advantages and disadvantages of cashless transactions.*

**Key words:** cash less transactions, demonetization.

## INTRODUCTION

Cashless transactions usually mean financial transactions by means of credit

cards, bank transfers, coins handed from one person to another.

Demonetization means it is the act of divesting a currency unit of its status as

legal tender. In other words it is the withdrawal of particular form of currency from circulation.


This is usually done when there is a change in national currency. Earlier Indian government had imposed demonetization twice in the years 1946 and 1978 with an aim to combat the tax evasion. In the year 2016 the government of India had once again announced the demonetization of INR 500 and 1000 to counterfeit the black money existing in the economy for the third time. With this announcement one can see an upsurge in card payments, online transactions and mobile wallets. Apart from that we see a lot of startup's coming into existence offering different modes of digital payments.

India uses 12.42% of cash to gross domestic product and less than 5% of all transactions take place electronically. Prior to demonetization 76.47 billion currency notes were in circulation. Government of India is also taking measures to reduce the dependence on cash by opening bank accounts to unbanked and the Reserve Bank of India has also issued licenses to bring innovative banking solutions by opening new-age small finance banks and payments banks which are expected to give a push to financial inclusion.

There is also technological development taking place in Indian the area of banking services which is a sign of improvement in both technological and cashless payments. One can make payments with the help of different ways which are being offered recently. And the different modes of cash less transactions are:

### **NEED FOR STUDY**

This study is done to identify the different modes of cashless transactions to know the impact of demonetization on the economy. To reduce the dependence on cash to know whether India can truly become a cashless economy, the different modes of cash less transactions are:

 **MOBILE WALLETS:** These are the digitalized version of the regular wallet that a person carries every day. There are many variations in it, a person carry digital information of credit and debit cards for making payments, store coupons, loyalty programs and many more. A lot of companies prefer this type of transaction for receiving and payment of cash. Patym, USSD are some examples of mobile wallet. Paytm is one of the best examples as its traffic increased by 43.5% and downloads by 200% from the announcement of demonetization and is one of the leading mobile wallet startups.

**PLASTIC MONEY:** Plastic money usually refers to credit and debit cards and other forms of prepaid cards. It is easy to use as there is no need to carry huge amount of money. Transactions over here take place on the basis of debit and credit. Credit card payments are made after purchasing and debit card payments are made after directly debiting money from one's bank account.

**NET BANKING:** Internet banking is the best and convenient way of banking from one's home or office. This helps in avoiding the wastage of time and energy by standing in queues. Different types of net banking are National Electronic Fund Transfer (NEFT), Real Time Gross

Settlement (RTGS), and Immediate Payment Service (IMPS) etc. This is a secured way of banking as there are different laws framed to prevent the cyber contravention. Cyber contravention deals with unauthorized access to computer network. It is subject to civil proceedings and prosecution. Penalty of cyber contravention is to be paid not exceeding 1 crore rupees.

In the below data we see the percentage of cash transactions and cashless transactions of different countries where we see the percentage of non-cash transactions of India are very less when compared to other countries.

Country	%age of all transactions made in Cash	'Share' of non-cash in consumer payments (by value)	Key regulations towards cashless
Denmark	37%	94-95% (Scandinavian countries average)	<ol style="list-style-type: none"> <li>1. NDB (National Bank Denmark) do not intend to print anymore banking notes from 2030</li> <li>2. Denmark government has been toying with the idea of giving retailers the freedom to not accept cash</li> </ol>
Sweden	38%	89%	<ol style="list-style-type: none"> <li>1. The topic of legal tender status for cash is being debated</li> </ol>
France	44%	92%	<ol style="list-style-type: none"> <li>1. Cash payment limit set to euro 3000 for fiscal residents, euro 300 at government offices</li> </ol>
UK	45%	89%	
Belgium	54%	93%	<ol style="list-style-type: none"> <li>1. No cash payment beyond Euro 3000</li> <li>2. By 2020 NBB (National Bank of Belgium) will no longer be printing cash</li> </ol>
Germany	55%	76%	
India	~5%	32%	<ol style="list-style-type: none"> <li>1. Niti Aayog announces incentives/ awards for digital transactions along with NPIC</li> <li>2. Reduction of card charges, at least for next few months</li> </ol>

## **ADVANTAGES OF CASHLESS TRANSACTIONS**

**+** Cash less transactions are convenient less risky and are widely accepted as one can hardly carry any cash.

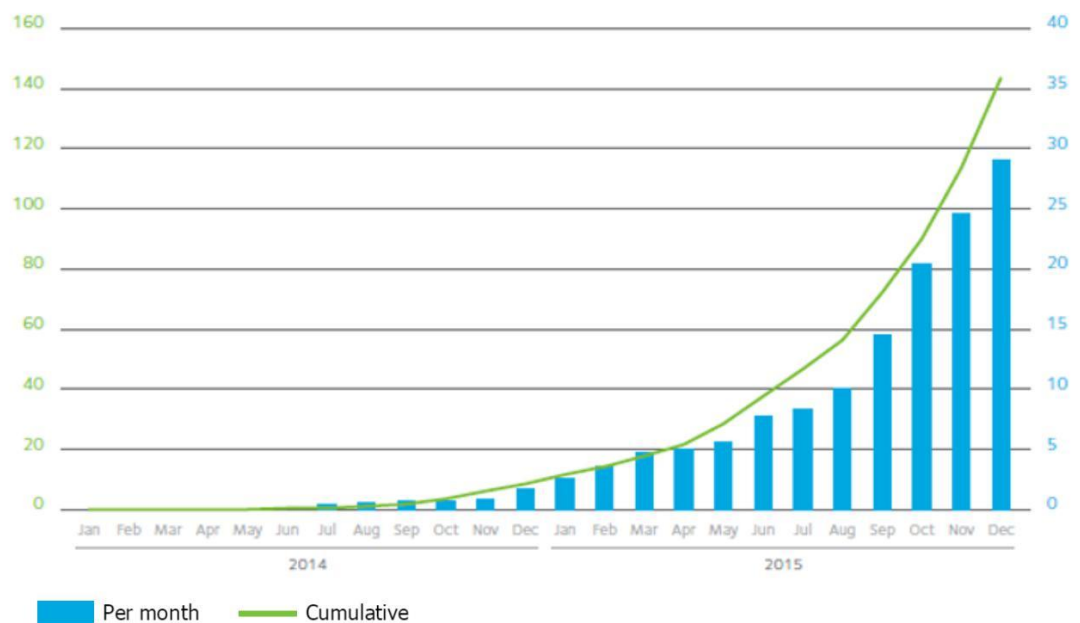
- ✚ As it is easy to view the history of expenses, one can manage their budget smartly.
- ✚ One cannot skip the taxes as cash less transactions are above the ground and are visible and easily traceable.
- ✚ Indians are lifted out of poverty and economic growth is also fueled as tax collections increase significantly
- ✚ Wealth stored in bank in the form of savings or FD's or investment is used

productively instead of lying unused or hidden under mattress or cupboards.

- ✚ GDP of India is understood better as to know which sectors are growing and which are in need of support.
- ✚ The technology used to usher these cashless transactions has the potential to provide security benefits to its users.
- ✚ If a digital wallet falls into wrong hands it is very easy to shut down

### Uptake of contactless and mobile proximity payments

Number of transactions, in millions



Source: Dutch Payments Association Annual Report 2015

Figure: the number of digital users for making transactions from the year 2014 to

2015.

### **DISADVANTAGES OF CASHLESS TRANSACTIONS**

- ✚ capability to conduct transactions might be effected since there is no consistency over payment mechanisms
- ✚ These transactions are not guaranteed by sovereign.
- ✚ If one losses the debit or credit card it takes a long while to him/her to procure another one.

### **SUGGESTIONS TO OVERCOME THE DISADVANTAGES OF CASHLESS TRANSACTIONS**

- ✚ One must download the apps for payments only from reputed and secured official stores like Google Play, Apple store etc..
- ✚ One must read the reviews of the app and must verify the publisher before downloading the app. The app must have Top Developer badge which is a sign of good app.
- ✚ It is better to avoid installing an app if it asks more than required information.
- ✚ Any online banking or shopping website should not be visited by clicking

- ✚ It is impractical if one moves to another country.
- ✚ There are chances of forgetting the pin of the card.
- ✚ Instant payments for goods and services cannot be made without cash
- ✚ Cashless society is concerned with a lot of privacy issues and computer hackers which is a disadvantage.
- ✚ Banks become very powerful as one can easily lose their card and the rate of interest charged by them will also be high

on the link when received through mail or text message.

- ✚ The passwords chosen for accounts on net banking or online payment must be strong, it must be atleast 8 characteristics long with uppercase, lowercase letters, numbers and symbols. Ex : Rose20is@queen
- ✚ One should not prefer public computers like those in cyber cafes for making cashless transactions.
- ✚ It is not preferable to use free or insecure wi-fi networks for making cashless transactions as there are chances of stealing information.
- ✚ One must install multilayered antivirus solution and a mobile security app.

✚ An attacker cannot manage to steal your banking details or make fraudulent payment through one's account if he/she has two-factor authentication

### **CHALLENGES FACED IN MAKING INDIA A CASHLESS ECONOMY**

✚ Financial literacy and availability of internet connections

✚ There are bank accounts which are created through Jan Dhan Yojana remained unoperated

✚ There are also people who are not interested in moving towards cashless economy.

✚ Since India has a lot of small retailers and is dominant by them, it is difficult to make India a cashless economy as they don't have enough resources to invest in the electronic payment infrastructure.

✚ Since negotiation takes place better with the help of cash, one believes that transacting takes place quickly with the help of cash rather than the digital transactions.

✚ There is also a misconception that the holders of credit cards are charged higher by the banks.

### **CONCLUSION**

Even after facing these challenges the government to India continued with their bold step, demonetization in order to counterfeit the black money existing in the economy. There are people who support this decision and there are others who are against to it, but India can achieve the objective of cashless economy only they get to know the benefits of it. Even we see a lot of startup's coming into existence offering secured mode of transactions. It is a bold move taken by our honorable Prime Minister Mr. Narendra Modi to make India a cashless economy and we can see that the chances of making it are more as the number of users using the digital modes of payment has increased from past few months. We also see the improvements made by telecom infrastructure, providing improved and affordable 3G and 4G services, which is also a helping hand for making cashless economy. And India makes it's digital move very quickly if this situation continues and one wishes India to make it's digital move as fast as possible.

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