



# Impact of Demonetization on Financial inclusion

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## Abstract

*Demonetization causes inconvenience for initial few days for those who have to start running to the banks to exchange their old notes, deposit amounts or withdraw the same. The timely introduction of new currency against old currency reduces the pains of demonetization tremendously within short period. This big and bold decision helps the Indian people to experience the cashless economy. Due to withdrawal of old currency, the digital transactions are surged from 400- 1000 percent through various modes of payments. The money was flow into system, it will be accountable and Government has a chance to track all the transactions above the certain limit of cash, generate tax to develop economy.*

**Keywords:** *Demonetization-Digitalization-Financial Inclusion-PMJDY-JAM*

**1: Introduction:** Finance is a powerful intervention for economic development. Access to finance, especially for the poor, is empowering because financial exclusion often leads to broader social exclusion. Yet, formal finance does not appear to have adequately permeated vast segments of our society, although progress is being made. To advance the process, the Reserve Bank has granted 'in principle' approval to a multitude of players in the financial ecosystem to establish Payments Banks and Small Finance Banks. The recently announced Jan Dhan Yojana by the government marks a landmark in the quest for universal financial access. The

government is also focusing on paying benefits directly into these accounts. This will ensure that a big chunk of the accounts opened under various schemes, which are presently dormant, witness 'movement', thereby integrating access with use. These are very heartening developments. The unbanked population is covered through the schemes announced by the central Government gradually. The recent announcement of demonetization of gave big chunk in opening of new accounts and depositing money into zero balanced accounts to do digital transactions where 86% of cash is withdrawn from circulation. The present

paper review the financial inclusion and the effect of demonetization to cover the unbanked population.

**1.1 Financial Inclusion:** Despite rapid expansion of the banking network in our country majority of people still do not have access to basic banking services. As per the statistics released by RBI on 10<sup>th</sup> march 2016; the total number of deposit accounts (including term deposits is 1440 million, savings bank accounts in 2015 was 1170 million. The current population is estimated to be around 1.3 billion. According to the world bank report globally, from 2011 and 2014, 700 million people became account holder at banks, other financial institutions, or mobile money service providers and the number of unbanked individuals, dropped by 20% to 2 billion adults.

At the turn of . of century, the expansion of bricks and mortar, deposit several efforts, was limited. The low penetration of formal banking led the Reserve Bank of India to look into financial inclusion as a major policy drive. The slew of measures that followed were the introductions of Business facilitators (BFs) and Business correspondents (BC) and deregulation of the opening ATM's and branches while ensuring sufficient coverage to neither to unbanked areas.

## **1.2 Pradhan Mantri Jan Dhan Yojana (PMJDY):**

This scheme was launched by Prime Minister Sri Narendra Modi on 28 Aug 2014. Prime Minister's people's money scheme is India's national mission for financial inclusion to ensure access to access to financial services namely, Banking, Savings & deposit accounts, Remittances, Credit, insurance, Pension in an affordable manner. On the 1<sup>st</sup> week of campaign between 23<sup>rd</sup> to 29<sup>th</sup> august -2014. 18, 096, 130 accounts were opened and Rs. 665/- billions were deposited under the scheme. The big push towards financial inclusion in India has emanated from the Pradhan Mantri Jan Dhan Yojana (PMJDY) and Jan Dhan Aardhan Jam trinity articulated in the Government Economics survey 2014-15

## **1.3 Demonetization:**

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. The current form or forms of currency is pulled from circulation and retired, often to be replaced with new notes or coins. The first demonetization was in 1946 and the second in 1978 to phase out notes with demonetization of Rs.1000, Rs.5000 and Rs.10,000. There are multiple reasons why a country demonetizes its currency, some reasons include to check the

inflation, to curb the corruption and to promote the cashless transactions, On November 8, 2016 Prime Minister Sri Narendra Modi announced that the legal tender of Rs.1000 and Rs.500 is no more legal tender, this step is considered as the biggest cleanliness drive against the black money in the history of Indian economy, As per RBI, the high value notes account for total value of 86% of the notes in

circulation in India. According to RBI reports 97 percent of the demonetized cash returned to the bank’s coffers by December 30, 2016. The effect of demonetization makes a spurt in digital transactions through different modes. The following table depicts the digital transactions done during the demonetization January 2017( RBI reports)

**Table 1.1 No. of Bank Accounts opened under PMJDY Schme**

S.No	Banks	Number of Accounts			Balance in Accounts Rs. In crores	% of Zero Balance Accounts
		Rural	Urban	Total		
1	Public Sector Banks	12.20	9.91	22.11	50,903.35	24.46
2	Regional Rural Banks	3.98	0.64	4.63	12,022.56	20.82
3	Private Banks	0.55	0.36	0.91	2,299.89	35.06
	<b>Total</b>	<b>16.73</b>	<b>10.92</b>	<b>27.64</b>	<b>69,225.81</b>	<b>24.20</b>

**2. Review of Literature:**

**2.1 Raj,** (2011), the average cost per transaction in India via the BC is the lowest at INR 4.50 per transaction; the cost of a transaction at an INR 18, and at a bank branch, it is INR 45. Regulated financial institutions such as commercial and state banks already exist in India, and they are experienced in managing financial services and handling money. However, it is difficult to establish banks in all areas. To extend financial to the poor, it is

essential for banks to keep the fixed costs low while trying to establish Customer Service points (CSPs) to cater to the lower income clients. Thus the BC model is critical in the Indian context. This alternative delivery channel is often referred to as – branchless banking, while there are many models of branchless banking, almost all the models depend on technology-based solutions and non-banking retail agents working for the bank. This paper studies the business

correspondents or banking agents) undertake cash transactions on behalf of the bank; these intermediaries are largely mobile. In such a model, the bank comes to the customer costs to the bank. The onus to reduce costs is now on the banks. A mix of rural and urban deposits has strategic importance to banks, as rural India can help banks increase their low-cost current account/ savings account deposits, thereby spreading the business risks.

**2.2 Tarazi and Ehrbeck, (2011),** The pricing of the transaction depends on the services it is offered on and other factors such as the frequency of service and the client profile. However, it has been found that percentage pricing is cheaper for low-cost transactions and gets costlier as the transaction value increases (when compared to flat pricing). The CGAP study reveals that the smaller the transaction value, the cheaper branchless banking is compared to formal banks- for clients as well as banks. For the banks and the technology vendor, the revenue is wholly dependent on the volume of transactions for which the stakeholders must focus on a high volume of transactions. Most e-money accounts are a payment 'service, which denies interest payment and deposit insurance for such accounts. However, once the e-money or money deposited via an agent is put in a

100% prudentially-regulated institution, this money is as much at risk as cash in a bank.

**2.3 Thorat et al, (2010),** The BC model in the direction financial inclusion gives more viability to the banks in achieving financial inclusion. The study by Sa-Dhana MFI, which focused on financial inclusion models including self-help group-bank linkage, microfinance institutions and BC model. It pointed out that the BC model currently required urgent intervention to sustain. The shortcomings for the BC model are the cost structure, bank's lack of commitment, absence of financial literacy, lack of knowledge between customer service point operators (CSPs) and clients and lack of grievance redressal system. The report pointed out that improvement in connectivity and technical infrastructure is required to sustain the BC model and it should be considered for convergence with the national e-governance plan. The BC model, if modified and rolled out carefully, has the potential to usher in a second banking revolution in the country to achieve near total financial inclusion.

### **3. Objectives:**

- 1) To assess the impact of Demonetization on Financial Inclusion
- 2) To study the flow of digital transaction after demonetization

**4. Data Analysis:** This research article is based on the secondary data collected from the reports of Reserve Bank of India and articles published in the news papers. The relevant data is compiled according to the objectives and analyzed and presented below for better understanding.

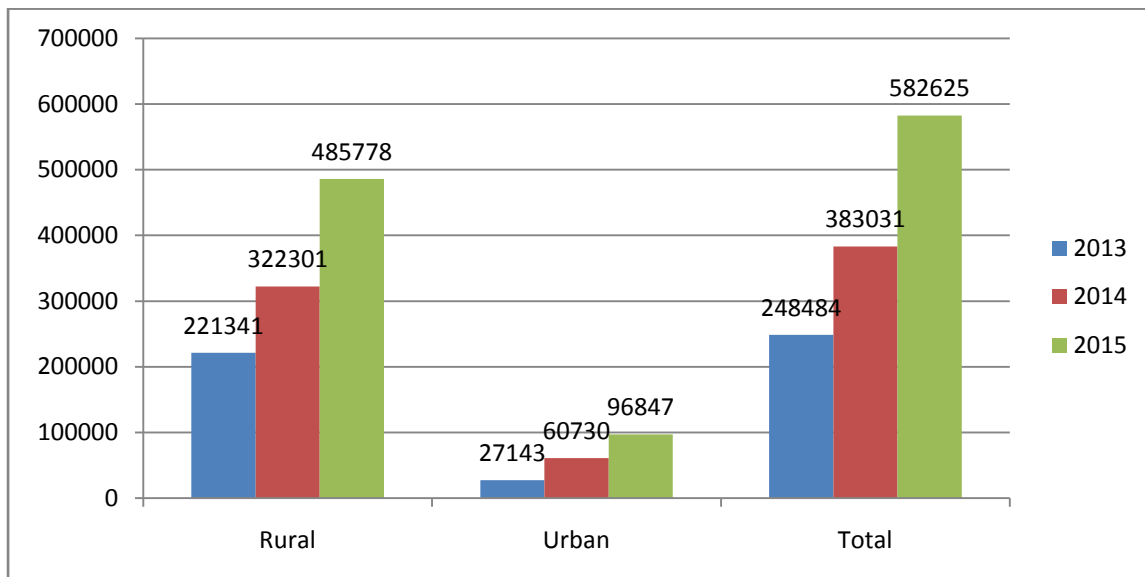
#### 4.1 Financial Inclusion

**Table 4.1 No. of BC/BF all over India (No. in Crores)**

Year	Rural	Urban	Total
2013	221341	27143	248484
2014	322301	60730	383031 (54%)
2015	485778	96847	582625 (135%)

Source: RBI reports

**Chart 4.2 No. of BC/BF all over India (No. in Crores)**



From the table 4.1 it is observed that the efforts of RBI and Government of India to reach the unbanked population became true. From 2013 to 2014 the number of

BC/BF are increased by 54% . From the year 2013 to 2015 the increase is three times ton to 135% covering 83% of population of India through the services of Banking and Insurance.

## 4.2 Pradhan Mantri Jan Dhan Yojana (PMJDY):

**Table 4.2.1: Growth in individual saving Bank deposit accounts**

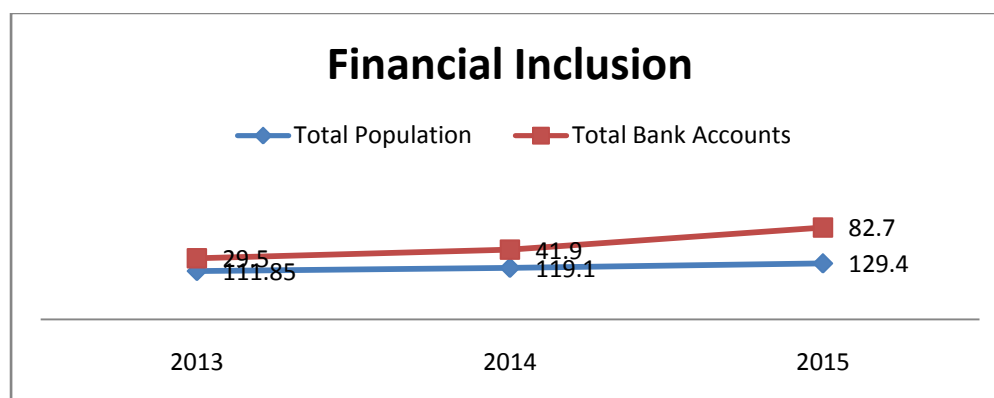
– (Rs.)

crores

Year	Rural	Semi Urban	Urban	Metropolitan	Total	Total Population	% of coverage
2006	10.4	8.5	6.8	7.1	32.9	111.85	29.5
2010	16.7	13.6	9.7	10.0	50.00	119.1	41.9
2015	38.4	32.0	18.6	18.0	107.0	129.4	82.7

Source: IBFI India

**Chart:4.3 The status of Banking coverage during 2013-2015**



## 4.3 Demonetization

**Table 4.1: NATIONAL ELECTRONIC FUND TRANSFER (NEFT) - JAN 2017**

(State Bank group Banks)

Month of January-17	Total out wards Debits		Total inwards Credits	
	No. of Transactions	Amount (Rs. Million)	No. of Transactions	Amount (Rs. Million)
STATE BANK OF INDIA	22088818	1514291.89	31908670	1550499.78
STATE BANK OF BIKANER AND JAIPUR	4952308	62242.46	2009450	55419.87
STATE BANK OF HYDERABAD	3227498	137389.06	2884075	132618.48
STATE BANK OF MAURITIUS	774	887.68	640	266.64
STATE BANK OF MYSORE	748479	45037.28	1291454	60650.10
STATE BANK OF PATIALA	876005	83543.94	933624	79202.02
STATE BANK OF TRAVANCORE	1135269	57492.77	1989156	88338.35
Total Transactions and Amount	164187826	11355075.03	164187826	11355075.03

Source: RBI reports

**Table 4.2: NATIONAL ELECTRONIC FUND TRANSFER (NEFT) – DEC- 2016  
(State Bank group Banks)**

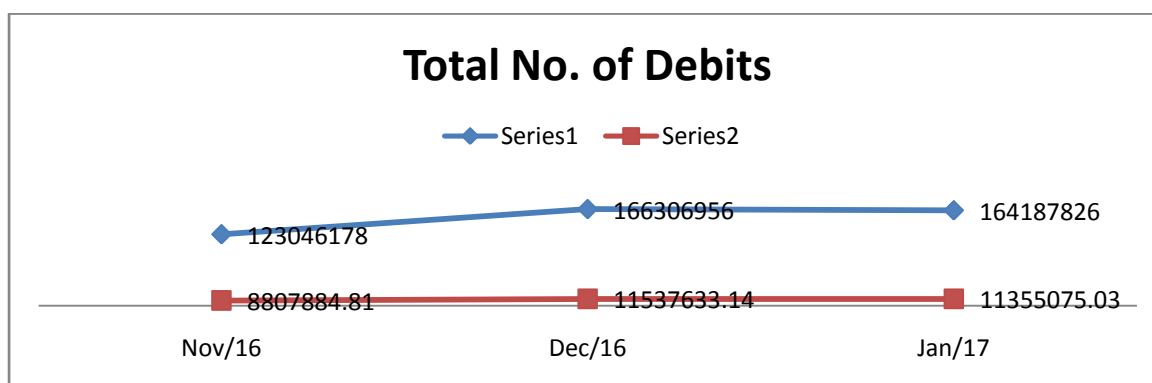
Month of December-16	Total out wards Debits		Total inwards Credits	
	No.of Transactions	Amount (Rs. Million)	No.of Transactions	Amount (Rs. Million)
STATE BANK OF INDIA	23709612	1593860.46	31888737	1617202.65
STATE BANK OF BIKANER AND JAIPUR	4915624	87131.40	1903894	56257.30
STATE BANK OF HYDERABAD	3539408	145807.20	2705605	147159.32
STATE BANK OF MAURITIUS	772	1148.12	707	195.18
STATE BANK OF MYSORE	649803	42105.71	1345935	53155.61
STATE BANK OF PATIALA	955651	63894.12	951876	57361.99
STATE BANK OF TRAVANCORE	1147543	54790.10	2192495	82829.35
<b>Total Transactions and Amount</b>	<b>166306956</b>	<b>11537633.14</b>	<b>166306956</b>	<b>11537633.14</b>

Source: RBI reports

**Table 4.3: NATIONAL ELECTRONIC FUND TRANSFER (NEFT)  
NOV- 2016 –JAN-2017 (All Banks)**

Month	Total out wards Debits		Total inwards Credits	
	No.of Transactions	Amount	No.of Transactions	Amount
Jan-17	164187826	11355075.03	164187826	11355075.03
Dec-16	166306956	11537633.14	166306956	11537633.14
Nov-16	123046178	8807884.81	123046178	8807884.81

Source: RBI reports

**Chart 4.1 Total of Debits transactions and amount during Nov-16 to Jan-17**

From the tables 4.1 to 4.3 it is observed that the efforts of Reserve Bank of India and Central Government to cover the unbanked population becoming true due to increase in the number of bank accounts

and increase in the digital transactions year by year. The main idea to introduce the Business Correspondents (BC) and Business Facilitators is to reach the population where the brick and mortar

system of banking is not possible. With the help of BC/BF and PMJDY nearly 83% of population opened the bank accounts and deposited their money. The announcement of demonetization helps the people to do digital transactions. The above tables depict the increase of digital transactions of State Bank group Banks of National Electronic Fund Transfer (NEFT) from November 2016 to January 2017. The trinity of JAM (Jan Dhan Yojana accounts, Aadhar and Mobile) helps more to increase the digital transactions.

## 5. Conclusion

- 1) The efforts of programmes of Financial Inclusion and Pradhan Mantri Jan Dhan Yojana covers nearly 83% of population.
- 2) Demonetization has given the new direction to the way people do monetary transactions in India.
- 3) Demonetization helps the Government to trace the black money.
- 4) According to the estimates made by RBI more than 3 lakh crores of black money is deposited in the bank accounts. This helped the Government in slowing down the plague of parallel economy

5) Demonetization helps the Government to track the each transaction and see the taxes paid.

6) People disclosing their income by depositing money in their bank accounts, Government get a good amount of tax revenue, which can be used towards betterment of Society.

7) The direct and indirect tax collections are increased by 13.3% compared to same period of last year.

## 6. References

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