

## Impact of Demonetization on Payment System

*Ms Pavneet Kaur (A.P.),*

Chandigarh Business School of  
Administration, Mohali, India.

*Ms Rupinder Kaur Tiwana (A.P.),*

Chandigarh Business School of  
Administration, Mohali, India.

### ABSTRACT

*Demonetization is the act by the Reserve Bank of India of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. The new form or forms of money replaces the current form or forms of money. In other words, it is an introduction of new notes and coins to replace the notes which are currently in circulation. Sometimes, a country completely replaces the old currency with new currency. This paper deals with Impact of Demonetization on Economy. It studies the positive impacts of the demonetization on Indian economy. This paper specifically outlines the effective implementation of demonetization decision. This paper concludes with the awareness level among the people for adopting e-system to get back to normal life during the initial hurdles faced by the masses.*

**Keywords:** Demonetization, e-system, legal tender, stripping.

### INTRODUCTION:

In India, an immense change appeared on 8<sup>th</sup> November, 2016 when it was announced by Government of India that currency of Rs 500 and Rs 1000 of Mahatma Gandhi Series has been banned. It was a decision given by Prime Minister of the country, "Narendra Modi". The major cause of demonetization was to curb black money and eradicate corruption. This announcement was followed by a significant disruption in the economy and the prolonged cash shortages in those weeks. The move has been criticized as poorly planned and unfair, and was met with protests, and strikes against the government in several places across India. Debates also took place concerning the move in both houses of parliament. The move is considered to have reduced the country's GDP and industrial production.

### DEFINITION OF 'DEMONETIZATION':

Demonetization means discontinuity of particular currency from circulation and replacing it with new currency. It 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 opposite of demonetization is remonetization, in which a form of payment is restored as legal tender. There are multiple reasons why nations demonetize their local units of currency:

- To counter inflation
- To eradicate corruption and crime.
- To promote Digital India
- To facilitate trade

### Demonetisation in India:

In 2016, it was not the first time that the currency was declared invalid or currency was removed from the circulation of the economy. But, in 1946, the currency note of Rs. 1000 and Rs. 10000 were banned. The ban did not really have much impact, as the currency of such higher denomination was not accessible to the common people. However, both the notes were reintroduced in 1954 with an additional introduction of Rs. 5,000 currency. In 1978, the second attempt happened when Prime Minister of India Morarji Desai announced the currency of Rs. 1,000, 5,000 and 10,000 to be invalid and to be taken out of the circulation. The sole aim of

the ban was to curb black money generation in the country.

**Positive impacts:**

- 1. Riddance of Forged currency:** By demonetizing, India could almost knock out 100% fake high currency notes out of circulation in one stroke.
- 2. Obliterate black money:** People having black money generally keep high denomination currency in their piggy banks, lockers and so on. But this step has abolished the black money from economy as the same could not be deposited in the banks.
- 3. Strengthen Indian Banking System:** Further, it leads to deposit of money into bank account which increases liquidity of banks and cash has come into the circulation which can be utilized for lending purposes.
- 4. Higher Tax Collection:** The system has induced the businessman to deposit their cash to bank account and finally paying the tax to the government.

**Payment System:**

A payment system is a financial transaction system used to transfer the funds in exchange of something. Certain people, instruments, rules, procedures and technology is involved in such fund settlement. The most common type of payment system is cash. Few decades back, there was no paper currency. Instead, other means were used to buy the things. Barter system is the system where commodities were exchanged for each other and no money was involved in it. Moving further, coins acted as medium of exchange and were started to be used as currency. Next to it, Paper currency was invented, i.e., a piece of paper engraved with a Mahatma Gandhi picture on it and number which represents the value or worth of it. Traditional payment systems are negotiable instruments such as drafts (e.g., checks) and documentary credits such as letters of credit. With the advent of Technology and electronic communications a large number of alternative electronic payment systems have emerged. Various sources of payment are available now-a-days. It includes ATM, Credit card, Debit card, Bank transfer, Paytm, internet banking.

**REVIEW OF LITERATURE:**

Dr. Shweta Singhal (2017) in this paper “Demonetization and E-banking in India” examines the awareness level of e-Banking facilities in rural and urban areas. The basic purpose of this study is to investigate the awareness level and operational level in rural and urban areas for both public and private sector banks. For this purpose, ANNOVA test has been conducted in this study. The study resulted in urban male youth having higher awareness and usage of E-banking. Whereas rural area women have low awareness level and little usage of the service.

Jagdeep Singh, (2012) in this paper “Scenario of e-banking in today’s life-A Survey” tells us about the constant and tremendous changes in banking field due to the information technology. A study was conducted in Ludhiana city and results revealed that respondents are aware of e-banking facilities. Moreover, it has increased the pace of transaction.

Amato-McCoy, D. observed that achieving consumers trust regarding transaction is the key to expand e banking. Customers are really worried about the security of their password and ID. Customers hardly give importance to service and are more concerned about transactions.

Manpreet Kaur (2017) in this paper “Demonetization: impact on cashless payment system” states the progressive shift to a cashless economy with greater focus on electronic transactions. Rising use of credit/debit cards, net banking and other online payment mechanisms will be another positive effect of demonetization, as these would not only lower transaction costs but some of these could help earn some fee income as well.

P.Nandhini, Dr.G.Kalaimani, in this paper “Demonetization: impact on the economy” states that demonetization is necessary and has helped to deal with corruption. It has motivated cashless transactions. Basically, this paper throws light on the impact of demonetization on the economy.

Ayesha Anam Siddiqui, Dr. Riyazuddin Qureshi, in this paper “Big Data in Banking: Opportunities and Challenges Post Demonetization in India” states that demonetization added to growing number of smart phones. Studies suggest that 90% of the world’s data was generated in the last few years. Demonetization followed by digitization is playing significant role in revolutionizing the banking sector resulting into more avenues for Big Data industry in India. This paper addresses the prospects for big data industry in India particularly in banking sector; its risk and solutions.

D. Mounika, and R. Kadhivel, in this paper “Impact of Demonetization in E-Banking” tells about the concept of Demonetization and E-Banking. It also measures the consumer attitude towards usefulness and willingness to

use internet banking. A comparison has been done on consumer attitude towards payment mode pre and post demonetization.

Rahul Parkash Deodhar, in this paper “Black Money and Demonetization” clarifies about the concept and objectives of demonetization. The focus of the study was to know the cost of demonetization and its impact on economy through GDP factor. The major area was to answer the question “Will it be effective if people can still create new black money thereafter

### **RESEARCH METHODOLOGY:**

- Research type: In this paper, Exploratory Research design is adopted.
- Type of data: The study is based on the primary data collected from respondents.
- Research method: Questionnaire method is used to collect the data from respondents.
- Sample Size: We have used sample size of 100. Data is collected through random sampling technique.
- Tools used: Simple pie charts and percentage has been used for analysis.
- Research area is Chandigarh. Respondents are general public.

### **OBJECTIVES OF THE STUDY:**

- To examine the payment habits among consumer after demonetization.
- To analyze the implementation of demonetization.
- To study the impact of the demography and variation in the awareness level in customers about e-banking services

### **FINDINGS:**

- Majority of people use debit card while making payments. Next popular payment mode is mobile banking and apps like paytm. 50% contribution is made by debits cards in this study. The least used mode of payment is coupon and credit card. i.e., 5%.
- By exploring further it was found that use of ATM is still much popular to make payments when buying some goods and services. Only 2% users use credit cards while buying goods and services.
- It has been found that 58% respondents agree to the point that ATMs in their locality were not steadily supplied with cash during the period of demonetization and 48% people disagree with the same point.
- Another major finding is that 85% people faced difficulty in using Rs 2,000 currency note in the market and 15% did not face any difficulty.
- 65% of respondents believe that ban of currency by Modi government was a right movement to curb money which could have been done with much better planning and 10% respondents disagree to it. Currency ban was not a good move according to 10% people.
- Total 60% people completely (38%) and partially (42%) agree that demonetization has improved the quality of life of common man in India. 6% people disagree that no quality of life has improved after demonetization.
- 63% respondents agree that introduction of Rs 200 currency note is a good move by the Government.
- 76% of people have curtailed their budget after demonetization and 24% did not curtail their domestic budget.
- 54% respondents faced personal and professional financial crises during demonetization.
- 70% of respondents say that somewhat shopkeepers have started giving bills to the customers; 10% people say that shopkeepers do not give bills to the customers.

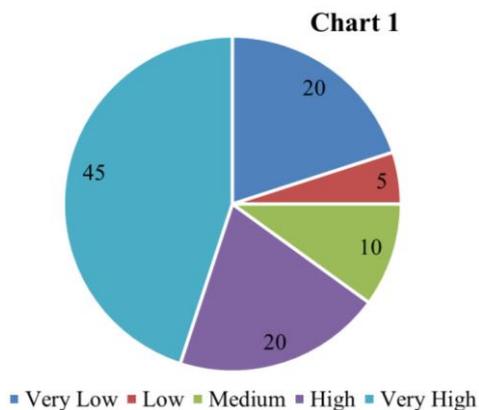
### **CONCLUSION:**

Demonetization is the act of stripping currency which took place in India on 8<sup>th</sup> November, 2016. The study is concerned with implementation of demonetization and its effect on digital payment. From the study, it can be concluded that move of demonetization could have been improved by proper planning. As the study shows that ATM's were not steadily supplied with cash, common man has really faced crises during that period. New currency of Rs2000 was introduced where again people faced difficulty to exchange it in the market. 70% of shopkeepers have started giving bills to customers which has improved the transparency in transactions. Moreover, digital payment system has improved a little more where people have started using mobile banking to make the payments. The most common and famous mode of payment is ATM's. In the nutshell, demonetization has improved the quality of life of common man through digital payment system. But, the act of

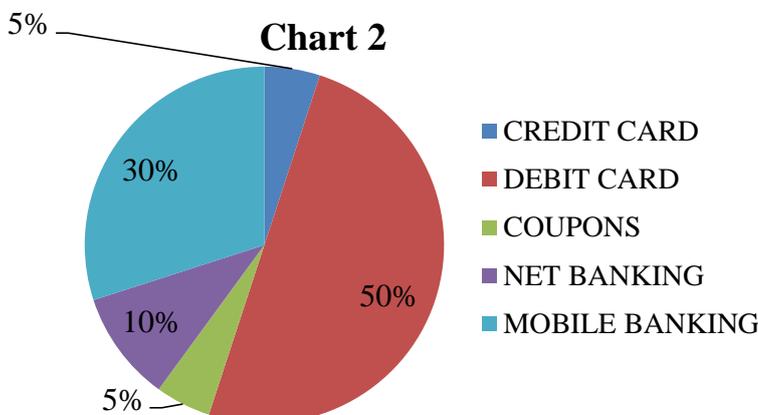
implementation could have improved with much better planning as people faced problems during that time period.

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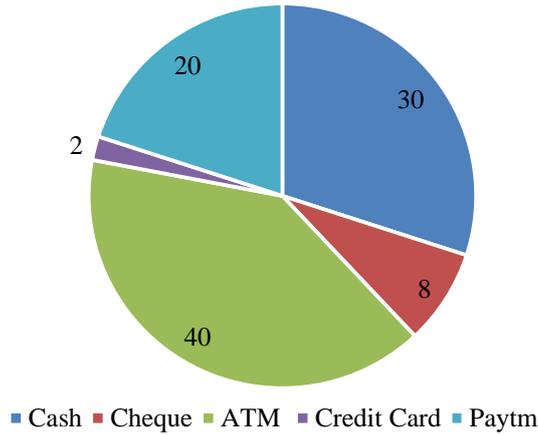


The above chart gives the information about comfort level with technology. So, it can be concluded that 45% respondents have very high comfort with technology and 20% have high comfort. On the other hand, 20% respondents have very low comfort with technology.



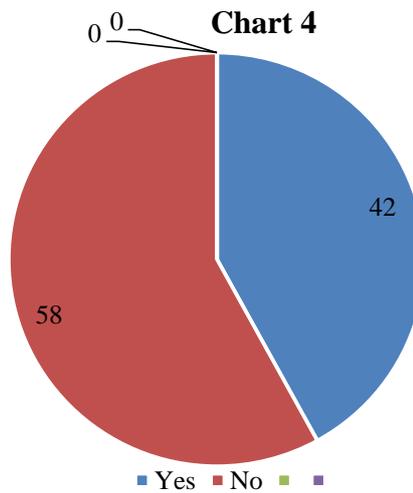
This chart shows the information about usage of payment services by people. So, it can be concluded that most of the respondents use debit cards while making payments, i.e. 50%. Another major contribution to payment system is done by mobile banking and net banking by 30% and 10% respectively. The least used mode of payment is coupon and credit card.

Chart 3



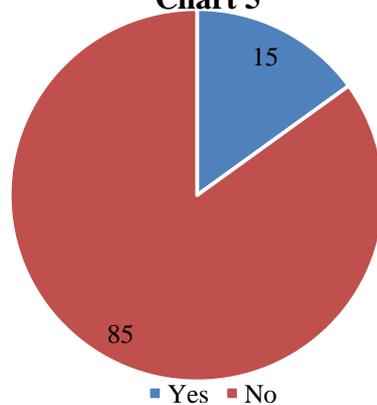
By analyzing the above data we concluded that most of the respondents are using ATM card while buying goods and services (40%) and only 2% users are using credit cards while buying goods and services.

Chart 4



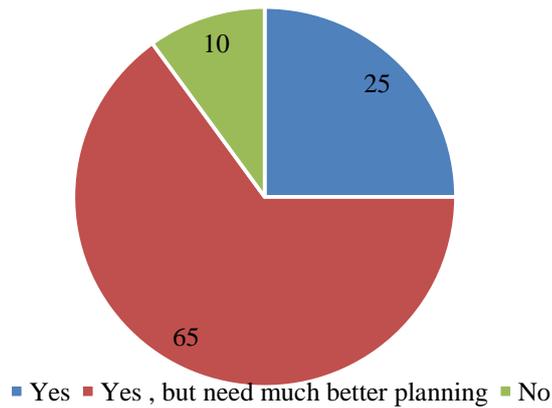
By analyzing the above data we concluded that most of the respondents are not provided with enough cash during demonetization (58%) and only 42% are provided with enough cash during the period of demonetization.

Chart 5



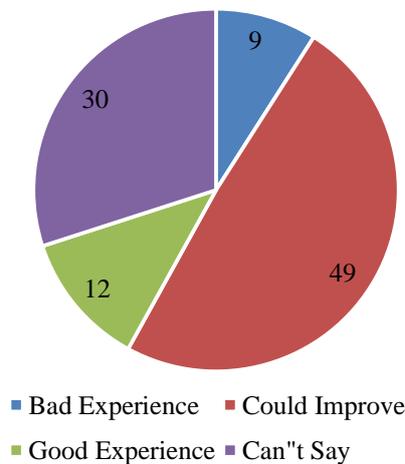
The above chart shows that most of the respondents did not face any difficulty while using Rs. 2,000 notes in the market (85%). On the other, only 15% faced difficulty in using Rs. 2,000 notes in the market.

**Chart 6**



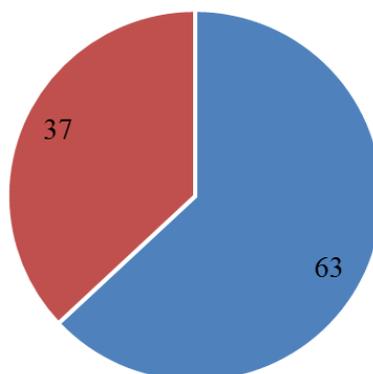
The above chart gives information about view point of people regarding the movement by Modi government. 65% respondents believe that this action was a good move but could have been done with better planning. 10% people believe that it was not a good move to ban the currency.

**Chart 7**



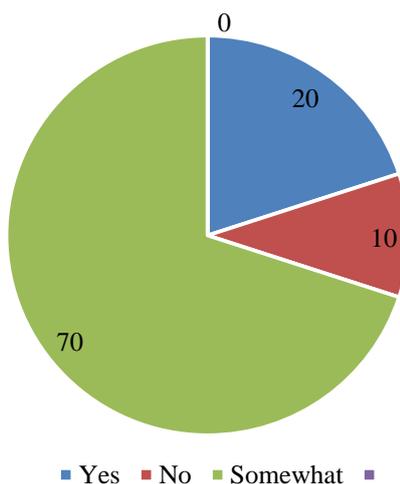
The chart no. 8 gives information about experience of respondents regarding implementation of currency ban by Modi government. 49% respondents say that it was good experience which could have improved.

**Chart 8**



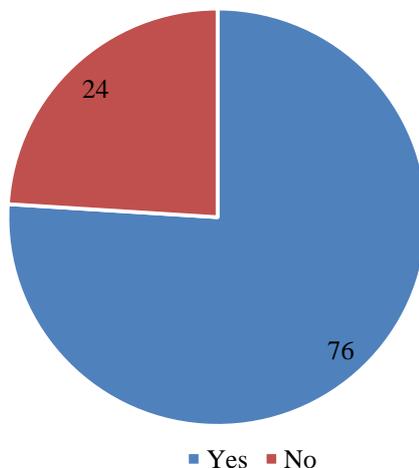
From the above chart, it can be concluded that 63% people believe that introducing Rs 200 note is a good step taken by the government after demonetization and 37% believe it is no more a good move.

**Chart 9**



According to chart no. 10, 70% respondents say that only some shopkeepers give bills, 10% say shopkeepers do not give bills.

**Chart 10**



The above chart depicts that 76% respondents have curtailed their budget and 24% have not curtailed their budget.

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