

DIGITALIZATION AND DEMONETIZATION: A STEP TOWARDS CASHLESS ECONOMY WITH REFERENCE TO COMMERCIAL BANKS

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Abstract

Digitalization is the scientific process by which everything can be converted into digital form with the help of different digital technologies. Our professional life as well as personal life becomes technology dependent due to digitalization. Digitalization has been identified as one of the major trends changing the society and business in the near and long term future. The impact of digitalization is major and many authors have compared it to the industrial revolution. The most crucial event demonetization in the year 2016 resulted in tremendous growth in digital payment and in post demonetization there has been a hike in digital payment which opened the gate for multiple digital wallets to enter India and have a successful run in the long run. The Government of India is trying hard for the utmost utilisation of digital payment platforms, by initialising several measures to promote and encourage digital payments in the country. Along with the impact of digitalization in the economy, demonetization also has major impacts. This paper presents the issues of digital payment system at the global level and national level. The customers problems and suggestions to overcome them are discussed in this paper. The paper further studies about the recent trends in the digital payment system, why they are been adopted and what would be the future of digital payment in the years to come. Digital payment systems are a great way to make the Digital India initiative taken by the government a successful programme and make our country a cashless economy.

Keywords: Digitalization, Demonetization, digital system, digital payment

Introduction:

Digitalization has been identified as one of the major trends changing the society and business in the near and long term future. The impact of digitalization is major and many authors have compared it to the industrial revolution. It should be seen as a more fundamental change than just digitizing existing work processes or products.

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The term digital means using binary digits. According to literature, digitalization refers to “The changes associated with the application of digital technology in all aspects of human society”. Digitalization is also known as “The ability to turn existing products or services into digital variants, and thus offer advantages over tangible product”.

India stands on the threshold of growth in internet and e-commerce activity. Along with the impact of digitalization in the economy, demonetization also has major impacts.

Demonetization, since it was announced in November 8th 2016, has been subject of intense debate. Fairly so, since it has been quite many years since such disruptive policy experiment has been conducted by the Government of India. Besides, demonetization has no parallels anywhere else in the world.

This recent strategy in India created a lot of panic in the economy but also gave a big thrust to further the spread of digitalization. Cash crunch and availability of e-sources of transactions compelled many people to use electronic modes of payment.

In recent days many changes have taken place in the payment system like digital wallets, UPI and BHIM apps for smooth shift to digital payments. The banking institutions have also created more mobile applications. The foreign investors have mostly invested in the digital payment segment of the nation. The cashless economy leads to changes in the economic position and avoids tax evasion in the nation.

Thus, the presence of digitalization and the strategy of demonetization paved the way to cashless economy. The recent data shows that new digital payment methods are building momentum. These innovations offer simple universal tools that may help India to become a cashless, paperless economy.

Literature Review:

Shivathanu B. (2019) in his study adoption of digital payment system in the era of demonetization emphasised on how the digital payment system was used by the people accepted during demonetization. It was based on a conceptual framework where the sample size was 766. The data analysed suggested that behavioural intentions and innovations resistance had an impact on the actual usage.

Pandey and Rathore(2018) in their study discussed the impact of digital payment systems, Due to modernisation and globalisation it was very important for the people accept the modern method of payment. The study is based on secondary data and various literatures from past papers and government data. All data collected has been analysed and used to find the impact and adoption of digital payments by the people.

Baghla.A(2018) in his study identified the trends for adopting the digital payment system in India. Further the paper talks about how after demonetization people started to use the digital platforms for transactions.

Harshita Bhatnagar(2017), “Demonetization to Digitalization” This article explained the journey from demonetization to digitalization, where demonetization is referred to as a key factor in triggering digitalization in the country. The research identified the roadblocks in digitalization and also explained the strategies to overcome them. The result showed that India is aiming, to become a developed country, the vehicle used is digitalization and demonetization is greasing the wheels and transforming India into Digital India Ms.Pranjali A.Shendge, Mr. Bhushan G. Shelar and Smitaraja.

S. Kapase(2017), “ Impact and importance of cashless transaction in India” They conducted the study to bring out the impact and importance of cashless transaction, to give a clear description of this new strategy. The research included the reports and data to evaluate the growth in cashless transaction. The result revealed that the cashless transaction in India is growing day by day at a faster pace.

Divya Munjal(2017),” Digitalization-Solution of Demonetization” This article viewed digitalization as a solution to demonetization and it sated the impacts of demonetization on various categories. It highlighted that sales of various products got reduced, but on the other hand the dream of cashless economy is being fulfilled.

Research Objective:

This study is to evaluate the contribution of digitalization and demonetization towards achieving a cashless economy. The main Objectives of the research are as follows:

- 1) To study the concept of digitalization
- 2) To bring out the effects of demonetization
- 3) To understand the idea of cashless economy
- 4) To analyze the impact of digitalization and demonetization towards achieving cashless economy

Research Methodology:

The research is conceptual in nature and based on secondary data. The secondary data had been collected from journals, research publications , authentic articles, published reports and online information.

Discussion and findings Digitalization:

According to IGI dictionary (2017), Digitalization is the integration of digital technologies into everyday life by the digitalization of everything that can be digitized. The literal meaning of digitalization gives an apparent idea of development and a technology-dependent world. This is not a new concept, it dates back to the advent of technology.

The digital payment is far more convenient compared to the traditional medium of paper currency. This method of payment is 24*7 available from anywhere. Such payment transactions can be done by any individual who possess it internet connection and they don't need to wait in a queue or visit banks.

It has also been seen that post demonetization it had made a great impact in a country like paper currency and to save time, as we know the government took an initiative to make India cashless country which post demonetization should some positivity and we can also see during this crisis i.e., due to Covid-19 we all are making most use of the digital payment system of e-commerce or all online grocery or other necessity online commerce are not accepting cash all are accepting prepaid payments which can be done through various digital payment system.

Need and importance of the Study:

This study has arisen as there is a technological change in the usage of payment systems in its banking industry. The payment systems have become popular among the customers the recent years post demonetisation and pandemic, Hence, there is a primary need to study about payment systems. The study also aims at understanding the Impacts and problems in the adoption of Digitalised payment system in India.

Impact of Digitalization

In any geography, the factors related to adoption and usage of digital technology, such as pricing, reliability, speed and ease of use determine the level of digitization, which in turn has a proven impact on reducing unemployment, improving quality of life and boosting citizens' access to public service. Digitalization allows governments to operate with greater transparency and efficiency, and it has a dramatic effect on economic growth, but not all at once.

1. Impact on Employment- The increased digital transformation has a greater impact on employment, as it creates more jobs in the IT sector, which may be related to software development, outsourcing, hardware manufacturing and other IT related businesses. In addition, the impact of these technologies has been realized on other service sectors, like in trade, industry, financial and health care services.

2. Impact on Banking and Payment system – It has been positively impacted by digitalization to considerable extent, since majority of transactions and services are being carried out online using internet. It has become cost effective and any time availability of services is made possible.

3. Social impacts – One of the most interesting and important factors related to digitalization is the link to overall societal welfare. As a social process, it enables institutions to generate cooperate and create larger benefits for the progress of the society.

4. Impact on Economy – Within a few years, digitalization has shaped a large part of the economy and touched a wide breadth of economic activities. It has changed societal connections, developed new industries and dilutes others, and redesigned the people's capabilities to access and disseminates knowledge.

Roadblocks in Digitalization:

In a country like India where a number of people have no bank accounts and internet use is limited, the roadmap towards digitalization is not easy. There are so many roadblocks in the way to reach the destiny.

- High illiteracy rates
- Slow internet connectivity with less bandwidth
- Unbanked areas
- Undeveloped tax systems
- Low penetration of PCs
- Late adoption of technology by India

- Lack of awareness among potential users
- Threats while using e-delivery channels
- Hesitation and so on.

Strategies to promote Digitalization:

In the way of achieving digitalization, several roadblocks are identified, as mentioned earlier. Therefore, once hurdles are found, it is necessary to formulate plans and strategies to overcome them. Once the strategies are formulated and implemented, the existing problems will be solved and for the future, again these serve as readymade solutions. It makes digitalization and all related aspects even more meaningful.

1. Customer Education
 - a. Presentations and workshops
 - b. Campaigns and advertisements
 - c. Training programmes
2. Monetary benefits
 - a. Removal of fees on e-payment
 - b. Incentivize digital payments
3. Use of mother tongue
4. Cyber security backed by Cyber Laws and Acts

The expansion of digitalization was boosted with the implementation of demonetization strategy by government of India.

Demonetization:

Demonetization is the instrument of government to eliminate the black money the currency unit that has been demonetized is withdrawn from circulation.

Demonetization can also be referred to as the process of moving people from a cash based system to a cashless system.

From time to time the government formulates fiscal policies that are meant to encourage economic growth. A lot of black money circulates in the economy and most of them are unaccounted because the sources of income are not known to the government can demonetize currency notes, so that the money holders are forced to deposit their money in banks or lose their wealth.

On November 8th 2016, Prime Minister Narendra Modi announced demonetization of high value currency notes of Rs.500 and Rs.1000, in an attempt to clamp down on black money, among other things. Subsequently, as a fallout of this decision, focus also shifted to urging people to go digital and move towards a cashless form of transaction. Moving towards a cashless India is moving towards an India where every transaction is accountable. Since

November 8, every Indian has only one thing on mind. The dilemma of choosing a safe, secure, convenient and cashless payment option.

Impacts of Demonetization:

- ❖ Political impact
- ❖ Social impact
- ❖ Impact on healthcare and services
- ❖ Economic Impact
- ❖ Effect on digital payments
- ❖ General Effects

Real Goal of India's Demonetization move with the Support of Digitalization – Cashless Economy:

Demonetization and digitalization paved the way for creating cashless economy. They are the major building blocks for making our economy cashless and go digital. Demonetization has not only sown the seeds for cashless India but also raised hope in the minds of a young India that black money will be weeded out soon. Facing criticism and appreciation, the government has paved the way for the cashless mode of payment.

Cashless economy can be defined as a situation in which the flow of cash within an economy is non-existent and all transaction must be through electronic channels such as debit cards, credit cards, electronic clearing, POS (point of sales) machines, digital wallets etc. And payment systems such as Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS) in India.

India is an incredibly cash-centric economy but the sudden move of India by removing 86% of currency in circulation without adequate supply of new notes has pushed many into circle of digital transactions. It is a big task in front of the Government of India and their policy makers to transform their society into a Cashless economy with the India's fast growing population.

Narendra Modi, Prime Minister of India, said “We want to have one mission and target, take the nation forward – Digitally and economically”. It is the dream of Cashless society.

Practical Implementation for moving on Path of Going Cashless

- ❖ Payment banks
- ❖ Electronic Fund Transfer System
- ❖ Mobile Wallets
- ❖ Banking Cards
- ❖ Banks pre-paid cards
- ❖ Point of Sale

❖ Mobile Banking

Payment Systems:

India supports a variety of electronic payments and settlement system, both gross as well as net settlement systems. The different types of payments systems are:

1. Use of Paper-Based Payments:

Like cheques, drafts, accounts for nearly 60% of the volume of total non-cash transactions in the country. In value terms, the share is presently around 11%. This share has been steadily decreasing over a period of time and electronic payment products in preference to cash and cheques.

2. Types of Digital Payment:

There are many types of digital payment available in our country and across the globe we have talked about a few which are known to people. **Mobile Wallets:** A Mobile wallet is a type of virtual wallet service that can be used by downloading an app. The digital or mobile wallet stores bank account debit/credit card information or bank account information in an encoded formatted to allow secure payments. One can also add money to a mobile wallet and use the same to make payments and purchase goods and services. This eliminated the need to use credit/debit cards or remember the CVV or 4-digit pin. Many banks in the country have launched e-wallet services and apart from banks, there are also many private players, some of the mobile wallet apps in the market are pay tm, Mobikwik, Free Charge, etc.

- a) **Internet Banking:** Internet banking refers to the process of carrying out banking transactions online. These may include many services such as transferring funds, opening a new fixed or recurring deposit, closing an account, etc. Internet banking is also referred to e-banking or virtual banking. Internet banking is usually used to make online fund transfers via NEFT, RTGS or IMPS. Banks offer customers all types of banking services through their website and a customer can log into his/her account by using a username and password. Unlike visiting a physical bank.
- b) **Mobile Banking:** Mobile banking refers to the process of carrying out financial transactions/ banking transactions through a smart phone. The scope of mobile banking is only expanding with the introduction of many mobile wallets, digital payment apps and other services like the UPI, Many banks have their own apps and customers can download the same to carry out banking transactions at the click of a button. Mobile banking is a wide term used for the extensive range or umbrella of services that can be availed under this.
- c) **UPI:** UPI is a type of interoperable payment system through which any customer holding any bank account can send and receive money through a UPI based app. The service allows a user to link more than one bank account on a UPI based app on their smart phone to seamlessly initiate fund transfer and make collect requests on a 24*7 basis and on all 365 days a year. There are many UPI apps in the market and it is available on both Android and IOS platform. To use the services, one should have a valid bank account and a registered mobile number, which is linked to the same bank account.
- d) **Banking cards:** Cards are among the most widely used payment methods and come with various features and benefits such as security of payments, convenience, etc. The

main advantage of debit/credit or prepaid banking cards is that they can be used to make other types of digital payments. For example, customers can store card information in digital payment apps or mobile wallets to make a cashless payment. Some of the most reputed and well known card payment systems are visa, Rupay and MasterCard, among others. Banking cards can be used for online purchases in digital payment apps.

- e) Bank prepaid cards: A prepaid card is a type of payment instrument on which one can load money to make purchases. The type of card may not be linked to the bank account of the customer. However, a debit card issued by the bank is linked with the bank account of the customer.

Findings:

1. Digital technologies are touching and transferring all the aspects of the country, economically, socially, politically and so on.
2. Digitalization has more positive impacts and usages in the country.
3. Demonetization, a historical and bold move, is very near to success, with its objective of curbing black money is almost accomplished.
4. The purpose of Demonetization is to bring about cashless economy. It is still on its way to accomplishment.
5. The Internet penetration rate is just 27% which is too low. It has to be at least 67% which is global median.
6. The encouragement gives to go digital and discouraging use of cash, by government, is not up to satisfactory level.
7. In spite of the drawbacks of digitalization and demonetization recent surveys show that digital transactions through online payments and e-wallets have already multiplied several folds.

Conclusion:

In the present global scenario, every country competes on the global level by adopting global level transformation. Globalization has made the world a global village, where everyone is trying to create benchmark of their own digitalization.

India also plugged into change. It welcomed digitalization and adapted to its routine. It became the trend setter and trend breaker of all time. When digitalization was flaunting success, there came the biggest decision of Indian economic history, the demonetization, by Prime Minister Narendra Modi on 8th November 2016 the main objective of which was to curb black money and the fake currencies. It gave digitalization additional wings to fly high.

Cashless transactions through the digital payment system have now started blooming in steady pace with many people switching to digital modes of receiving and making payment.

Both of the these agendas paved way for cashless economy in India. Through the use of digital technologies, the transactions were made cashless. Various modes of digital payments and digital payment services providers came into existence to fulfil the needs of a cashless economy, Digitalization, demonetization and cashless economy all the three forms an in-

formidable triad that are intrinsically connected, compatible and complement each other in taking India to new heights.

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