

Impact of demonetization in the use of plastic money with special reference to card and non-card holders

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Abstract

Declaration of 86 percent of currency notes as illegal tender in just a blink of time on 8th day of November 2016 mandated the creation of interruption in daily lives. It is one of the big steps initiated by the government in addressing the various issues like black money, counterfeit currency, corruption, terrorism etc. Apart from these issues, one of the main aims of the government is to transform the parallel economy in to digital economy. Even though the withdrawal of rupees 1000 and rupees 500 notes from circulation has disturbed the normal life of people it is expected to help the economy to move to digitalization as people will more depend on plastic money, net banking, e-wallets, m-wallets etc. Demonetization has made many states in the country to go for digital banking. As India takes a step towards cashless society, this article has made an attempt to analyze the problems and challenges faced by the customers and banks after demonetization by focusing specially on plastic money and also the opportunities available to customers with the use of plastic money like tax benefits to customers and merchants, cash back offers, etc.

Keywords: Demonetization, Black money, Plastic money, Digitalization

1. Introduction

The Indian economy is the world's fourth largest economy with more than 1.2 billion people and the sixth largest economy in the world measured by nominal GDP and the third largest by purchasing power parity. Its recent growth and development has been one of the most significant achievements of all

times. The country has brought out tremendous revolution in agriculture and other sectors which has transformed the nation from chronic dependent country over the six and half decades since independence. At one side Indian economy is developed in all sectors and on the other side Indian economy stands badly shattered because of illegally possessed money called black money. It has given rise to parallel economy operating within the country. The gap between the rich and the poor is widening day by day.

The Indian government at various times in order to curb black money in the country announced some voluntary disclosure schemes but it went unnoticed. Suddenly on 08th of November 2016 Prime Minister, Mr. Narendra Modi announced a decision on India's first major "Currency vasectomy" and amid the result in cash squeeze coming as a disruptive step to fast forward the country into a breakaway economy. One of the important aim of demonetization is to make India "a Cashless society and to weed out the stocks of black money out of the economy.

Demonetization is a process by which a series of currency will not be a legal tender. The series of currency will not be acceptable as a valid currency. In the same way Rs. 500 Rs 1000 will not be acceptable as a valid currency. The sudden move to demonetize these currencies has paralyzed the economy to a certain extent. It has caused many difficulties for the common people because of insufficient availability of new currency notes. People have to make long queues in front of banks as well as ATM counters which are yet to be upgraded. This has made them to shift from paper money to plastic money, wallet money etc.

Wallets and plastic money were an option earlier but they have become a need now. As on March 2016 there were around 20 million credit card holders and around 662 million debit card holders in the country. Yet in India, 95% of transactions were made in cash which shows there is a huge potential to tap. But with demonetization, the trend of cashless transaction has increased. The government's encouragement to use plastic money is evident from its decision to bear the transaction cost for all payments made through plastic money. By limiting money circulation in economy, the interest rates are expected to come down which will fuel the country's economic growth so that there will be an increase in use of plastic money.

Apart from curbing the black money, one of the objectives is to make India a digital economy. A digital economy is an economy that is based on digital computing technologies. It is also sometimes called the internet economy, the new economy, or web economy. People are reluctant to try on new things unless it is made mandatory. Thus, the demonetization has led the larger number of individuals to lessen their dependence on cash transaction and resort to digital payments. The year after year growth rate of registered internet users in India stands at an impressive increase which means there is an increase in use of digital technology and banking. Though the transition to digital economy will be slow, it is in the path of becoming a digitalized economy where demonetization played a crucial role.

The study was conducted mainly to know the challenges faced by banking sector after demonetization and what are the opportunities available to consumers in digital economy with special focus to plastic money

2. Demonetization: History

Demonetization is not new to India as well as outside India. Governments of various countries across the world have decided to ban currency notes in circulation making large amounts of cash useless over nights due to various reasons. This is due to fighting black money, to stop terror activities etc. Many countries have also adopted demonetization to overcome inflation, to bring economic stability etc. The countries which went for demonetization other than India are Zimbabwe, Russia, Myanmar, Australia, Ghana, Nigeria Zaire, Pakistan and North Korea.

The highest demonetization note ever printed by RBI was Rupees 10000 note in 1938 and again in 1954. But these notes were demonetized in January 1946 and in January 1978 respectively according to RBI. There were rupees 10000, 5000, 1000 notes in circulation and were de monetized in January 1978. The rupees

1000 note was again reintroduced in November 2000 and Rs. 500 note came into circulation in October 1987. Every time the demonetization was suggested by the government as a measure to unearth and counter the spread of black money from within and outside India.

3. Review Of Literature

1. Sandeep Kaur (2016) in his article "Demonetization and its impact in India" says Demonetization is a historical move by the government and this decision will definitely fetch results in long term. This move can lead to improved tax compliance better fiscal balance, lower inflation, and corruption and eliminates fake currency for sustained economic growth in the longer term
2. Deepthi Mary Mathew (2016) in the paper "Demonetization: A Positive step towards a less cash society" says that the Demonetization of higher denomination notes should be considered as a constructive step by the government to push the country towards a cash less society. This can also act as an impetus for various government initiatives schemes such as financial inclusion and digital India.
3. Virendra Pandit (2016) in his article "India skip plastic money, leapfrogs into mobile wallet payments" says that India has virtually jumped the intermediate stages- cordless telephones and plastic money of this technological revolution and quantum jumped into cellular telephony and digital banking transaction
4. Dr. Ambikasinha and Divya Rai (2017) in the paper "Aftermath of demonetization on rural population" says that the effect of change are emergent from the system itself and cannot be determined beforehand. Hence we can only speculate future macro economics factors of Demonetization.

Anil I Ramdurg and Dr. Basavaraj CS (2017) in the paper "Demonetization: Redefining Indian economy" says that Demonetization is a general measure to mitigate the problems of black money and counterfeit notes though there are specific measures to tackle the same menace. It is usually, immediately or simultaneously followed by remonetization as there is no other way.

4. Research Methodology

4.1 Objective of the study

- Finding digital economic possibilities with plastic money in the wake of Demonetization
- Exploring the opportunities by the customers and managing the challenges by the bankers in Post Demonetization

4.2 Need of the study

India is majorly cash based economy. Close to 98% of the total transaction by volume and 65% of transaction by value are done in cash which makes it extremely difficult for the government to keep a track of all these transactions which lead to corruption and increase the black money in the country. To eradicate the black money from the country the government announced banning the legal tender of Rs. 500 and Rs. 1000 notes. Thus there arises a need to study how this has affected the economy where 98% of transaction is carried by these notes. There is also a need to know how far the people can find opportunities by accepting other mode of payments and also how the banks are managing the present situation.

4.3 Sources of data:

- **Primary data** are collected through questionnaire which was distributed among bank customers as well as bankers.
- **Secondary data** are collected from journals, publications, books, internet etc.

4.4 Sample design

- **Population of the study** is bank customers of Hyderabad city
- **Sample size** is 75. This is divided as card holders and Non-Card holders.
- **Sampling Technique** is convenience sampling technique as the samples are a bank customers.

4.5 Limitations of the study

- In spite of best of efforts to minimize all limitations that might creep in course of research there were time constraints for the research.

- For primary data non response error cannot be ruled out.

5. Data Interpretation

As per the objectives of the paper, the data collected from bank customers were analyzed and the observations are interpreted and are discussed below.

5.1 Bank Customers (Total number of respondents are 75)

5.1.2 Profile of non-card holders

- Gender: Majority of respondents are males. out of 23, 16 are males and 7 are females
- Educational Qualification – most of the respondents are high school and intermediate qualified
- Occupation- majority of respondents are into private business and some are daily wages.
- Monthly income – Income of many respondents falls below Rs. 20000/- per month and few of the respondents earn more than Rs. 20000/-

5.1.3 Rating of non-cardholders on reasons for not using Plastic money (respondents 23)

(SA- Strongly Agree, A- Agree, M- Moderate, DA- Disagree, SDA- Strongly disagree)

Observation: From the above figure it is observed that majority of non cardholders strongly agree that they lack in meeting the eligibility criteria to get the cards, as most of the respondents income level is less than Rs.20000 per month. Apart from that they also strongly agree with the reason that it cannot be used for low value transactions and many of the small merchants does not accept payments through cards. Here comes the challenge for the bank that they should revise the eligibility criteria and also the credit limits so that each and every banking customers can get a chance to use the cards. Government also should have look on the taxes they levy on usage of plastic money so that they can achieve a goal of making India a less cash economy.

Table 1. Rating of non-cardholders on reason for not using Plastic money

SI No.	Reasons	Total Number of Respondents				
		SA	A	M	DA	SDA
1	Problem in carrying cards	7	5	0	11	0
2	Possibility of losing or misusing	10	12	0	1	0
3	Taxes and Charges levied on Cards	15	7	1	0	0
4	Repayment Concern/ Debt trap	19	4	0	0	0
5	Increases Spending Habits	10	10	0	3	0
6	Makes Impulsive Purchases	Nil	6	10	7	0
7	Lack of meeting the eligibility criteria for getting the cards	18	5	0	0	0
8	Non Acceptance of cards by small merchants	20	3	0	0	0
9	Cannot be used for low value transactions	15	8	0	0	0

5.1.4 Demonetization will lead non-card holders to use Plastic money

Table2. Demonetization leading to use plastic money

Sr no	Response	Total no. of respondents	Percentage
1	YES	18	78.26
2	NO	5	21.73

Observation: From the above table it is observed that 78% of respondents agree that demonetization will lead to digitalization. But at the same time remaining 22% has an opinion that it will not. According to them demonetization is not a continuous process. Once the flow of currency increases, the economy will again back to normal.

5.1.5 Factors that lead Non-Card holders to use Plastic money after Demonetization

(VH- Very High, H- High, A- Average, L- low, VL – Very low)

Observations: From the above figure it is observed that majority of respondents have a very high feeling that all these factors will lead them to use plastic money. As the government has made some limits on withdrawals, all their needs cannot be satisfied only with that limited amount. Hence they feel that they can use the plastic money to fill the gaps. After demonetization there are lots benefits given on the use

of plastic money such as no transaction cost, cash back rewards, tax benefit and discounts on using debit and credit cards which will also lead the customers to go for plastic money.

Table 3. Factors leading to use plastic money

Sr no.	Factors	Total Number of Respondents				
		VH	H	A	L	VL
1	Can be used as Instant Cash	13	8	2	0	0
2	To meet Cash Crunch	19	4	0	0	0
3	Cash back rewards on cards	15	8	0	0	0
4	Other benefits	10	8	0	5	0

5.1.6 Profile of card holders (Total Number of respondents is 52)

- Gender – Majority of respondents are males. i.e... out of 52, 34 are males
- Educational Qualification – most of the respondents are postgraduates and graduates.
- Occupation- majority of respondents are into government jobs and professionals and some are private business owners.

- Monthly income – Income of many respondents falls under Rs. 30000-50000 rupees per month and few of the respondents above Rs. 50000.

5.1.7 Banking Details of Cardholders:

- Banking with: 40 respondent’s bank with nationalized banks and 12 with private banks.
- Type of account: Majority of the cardholders have savings account as they are drawing salary income and few of the cardholders who does private business have current account too.
- Type of plastic money used: Most of the respondents have both debit and credit cards.
- Frequency of cards used: majority of respondents use the card once in three days as per requirement.

5.1.8 Response on increase in use of plastic money by card holders after demonetization

Table 4. Increase in use of plastic money by cardholders after demonetization

Sr. No.	Response	Total no of respondent	Percent age
1	Strongly agree	32	61
2	Agree	15	29
3	Disagree	5	10
4	Strongly disagree	0	0
Total		52	100

Observation: It is observed from the table that majority of respondents strongly agree that use of plastic money has increased after demonetization in order to counter the demonetization effect.

5.1.8 Problems faced by bank customers after demonetization. (Respondents 75)

[SA- Strongly agree, A- Agree, ID- Indifferent, DA- Disagree, SDA- Strongly Disagree]

Observation: It is observed from the above table that in post demonetization period the problems faced by the customers were comparatively less than in demonetization period. Most of the banks upgraded their ATM’s and there is an increase in flow of new currency notes. Hence, there was some relief to the

customers as some of the respondents disagree with certain problems.

Table 5. Problems faced by customers after demonetization

Sl. No.	Reasons	Total Number of Respondents				
		SA	A	M	DA	SDA
1	Long Queues	45	30	0	0	0
2	Inadequate cash with banks	40	23	12	0	0
3	Less availability of new currency notes	42	28	15	0	0
4	Unavailability of cash at ATM’s	57	8	10	0	0
5	Problems in meeting the daily expenses	22	23	15	15	0
6	Lack of Rations	10	8	15	42	0
7	Problem in organizing functions	28	40	7	0	0

Findings:

1. More than 70% of respondents strongly agree that the demonetization will lead to digitalization and there will be tremendous increase in use of plastic money.
2. As a part of making India a digital economy and a less cash society the government has announced benefits to customers using plastic money as payment mode.
3. The opportunities made by the government to its public are tax benefit on use of plastic money , benefits to merchants , cash back rewards on cards etc. and due to this the customers are more shifting to plastic money rather than using the cash.

Conclusion

Demonetization is a general measure to control the problems like black money, counterfeit notes, though there are specific measures to solve these problems. It is usually, immediately, or simultaneously followed by remonetization, as there is no other way. The government is in process of controlling the situation by increasing the circulation of new currency notes. So our efforts should be focused towards popularizing e-banking and advantage in using plastic money. Government should take initiative to make available the plastic money to its public especially the rural population and educate them regarding digitalization and its advantage as most of the rural population still

depend on cash. The decision of government will definitely give better results in the long run. To make dream 'digital economy' happen, there is need for more organized studies across India so as to find out the preferences for use of plastic money and the challenges. This knowledge market will help the marketers, policy maker and also the customers.

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