

FINANCIAL INCLUSION IN INDIA: A COMPARISON BETWEEN PRE AND POST DEMONETIZATION

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ABSTRACT

Purpose: Eradication of the practice of mobilization of black money, corruption, counterfeit currency and terror financing were main objectives of demonetization on November 8, 2016 in India. Another goal of demonetization with the support of Digital India Program is to make cashless economy by enhancing digital payment/transaction. Bringing all the money into the system and enhancing the financial inclusion by opening the banks account of unbanked household was the aim of the Government. Demonetization played a crucial role in enhancing banking and digital transactions in addition to the intended objectives like eradication of black money, corruption, counterfeit currency and terror financing. Therefore, there is a need to study the impact of demonetization on financial inclusion during this period.

Objectives: The study aims to assess the impact of demonetization on banking payments, online payments/ transition and financial inclusion between pre and post demonetization in India.

Methods: Descriptive research design is used as study describes the impact of demonetization on banking transaction and financial inclusion. Study is based on secondary data published by RBI, Government departments, different agencies, research papers, and news articles. Descriptive statistics is applied to analyze the data.

Result: Study discovered that there is sudden decreased in circulation of notes and increased in bank deposit after announcement of demonetization. It also showed that there is an increase in RTGS, Internet transaction, CCIL operating system, prepaid payment instruments, cards transaction, and total payment systems after demonetization. The study discovered that there is

no significant impact of demonetization on number of beneficiaries under Jan Dhan accounts. But the deposit of money in Jan Dhan account has increased significantly after announcement. The impact of demonetization is more in public sector banks followed by regional rural banks.

Keywords: Financial Inclusion, Demonetization, Banking & Digital Transactions.

1. INTRODUCTION

Demonetization is an act of scraping the unit of currency as a legal tender from the system. The first demonetization was announced on January 12, 1946 in India. Rs.1000 and Rs. 10,000 notes were declared as an illegal tender. The total circulation of these notes in economy was Rs. 143.97 crore. Second demonetization was announcement on 16 January, 1978. Rs. 1000, Rs. 5000 and Rs. 10,000 notes were declared as an illegal tender (Shaw J.M and et al. 2017). Narendra Modi, Prime Minister of India announced Rs. 500 and Rs. 1000 notes invalid from November 8, 2016 onwards in India. It created the shortage of 86 percent of money in the economy. The first deadline to deposit invalid money was December 30, 2016 which was extended till 31 March, 2017 for Indian residents and 30 June, 2017 for non-residents of India. Eradication of the practice of mobilization of black money, corruption, counterfeit currency and terror financing were main objectives of demonetization. The impact of demonetization was more on the unorganized sector as compare to organized sector. The industries depended on the cash to run their day-to-day activities suffered a lot during this period due to the shortage of cash. However, banking payment and online transaction has increased significantly after demonetization. It has also led to increase the financial inclusion in India. Therefore, this study focuses on examine the trend of financial inclusion pre and post demonetization in India.

2. LITERATURE REVIEW

The various studies have been reviewed. They have studied the advantages, disadvantages and impact of demonetization on different sectors of economy which are listed below.

Samuel Y. and Saxena A. (2017) have studied the impact of demonetization on different section of economy in short-term and long-term. They have mentioned that demonetization creates cash crunch in short run but it benefits the economy in long run in increasing tax revenue of the government, eradicating black money and increasing bank deposit.

Dash A. (2017) has studied socio-economic effect of demonetization. He has mentioned that demonetization created problems in social sector particularly the sections which are dependent on cash. However it has helped to the economy in long run by eradicating black money and helping digital transactions.

Shaw J.M and et al. (2017) have studied the overview of demonetization and its impact on banking sector in Jammu and Kashmir State. They have mentioned that demonetization has helped the economic growth and development through financial institutions.

Singhal S. (2017) has studied the awareness level of people about e-banking facilities after demonetization. She has revealed that rural people lack in aware and usage of e-banking as compared to urban people. Gana, R. (2017) analyzed the decision of demonetization in respect to St. Petersburg paradox and loses.

Kadam, B. S., & Kadam, S. B. (2017) have analyzed the issues and challenges of demonetization in India. Their study concluded that demonetization has positive impact on digital transaction. There is need to upgrade the banking system and telecom infrastructure to back up the digital transaction.

Siddiqui, M. A. & *et al.* (2017) analyzed the impact of demonetization on Indian economy focusing on Index of Industrial Product and inflation. Study concludes that though demonetization leads to fall in some sectors consumer durable, real estate and jewelry but it will bring positive impact in equity market and overall economic growth.

Bansal, A. (2017) have studied the impact of demonetization in Ambala district of Haryana. The study found significant association of income, occupation, age and gender with demonetization. Study also revealed that demonetization helps to eradicate black money, corruption and terrorism.

Singh D. B. & Panwar S. (2017) analyzed the impact of demonetization on informal economy of India. They have mentioned that government have taken some initiatives such as Benami Transactions (Prohibition) Amendment Act 2016 and PMJDY to curb black money and provide access to banking facilities all the sections of society. They said that demonetization helps to boost digital economy but an inadequate infrastructure and poor internet connection is the major challenge for India.

Sherline T. I. (2016) have studied the need of demonetization, role of government and RBI and its impact on financial inclusion. She mentioned that poor section of society is unable to use financial services properly. Now demonetization would help to increase the financial inclusion in poorer section of society by encouraging them to use banking services.

Mali, V. (2016) have studied the impact of demonetization on different sectors such as E-Wallet business, online retail stores and micro businesses. Study concludes that the demonetization will have positive impact in reducing fake and black money in long run.

Ramdurg A. I., & Bassavaraj C. S. (2016) mentioned that demonetization will redefine the Indian economy by eradicating parallel economy. Demonetization will address the issues such as terrorism, counterfeit currency, corruption and black money.

Rani G. (2016) analyzed the impact of demonetization on retail sector. The study concludes that the most of the brands' sale decreased in short run but it will have more positive impact in long run by making the cashless economy.

Singh P. & Singh V. (2016) have studied an impact of demonetization on various entities and economic variables. They have mentioned that demonetization has affected negatively on real estate, agriculture, luxury goods, consumer durable and non-durable goods in short-run. On other hand, it has positive impact on e-commerce, mobile wallets, net and payment banking, cards and online transactions.

Kumar, S. V., & Kumar, T. S. (2016) studied demonetization and financial inclusion. They mentioned that corruption, black money and financial crime can be eradicated through such financial reforms in the era of technology. However, there is a challenge of lack of financial literacy and financial inclusion in India.

3. OBJECTIVES OF THE STUDY

1. To examine banking transactions during pre and post demonetization
2. To examine online payments/transactions during pre and post demonetization
3. To study the impact of demonetization on financial inclusion

4. RESEARCH METHODOLOGY

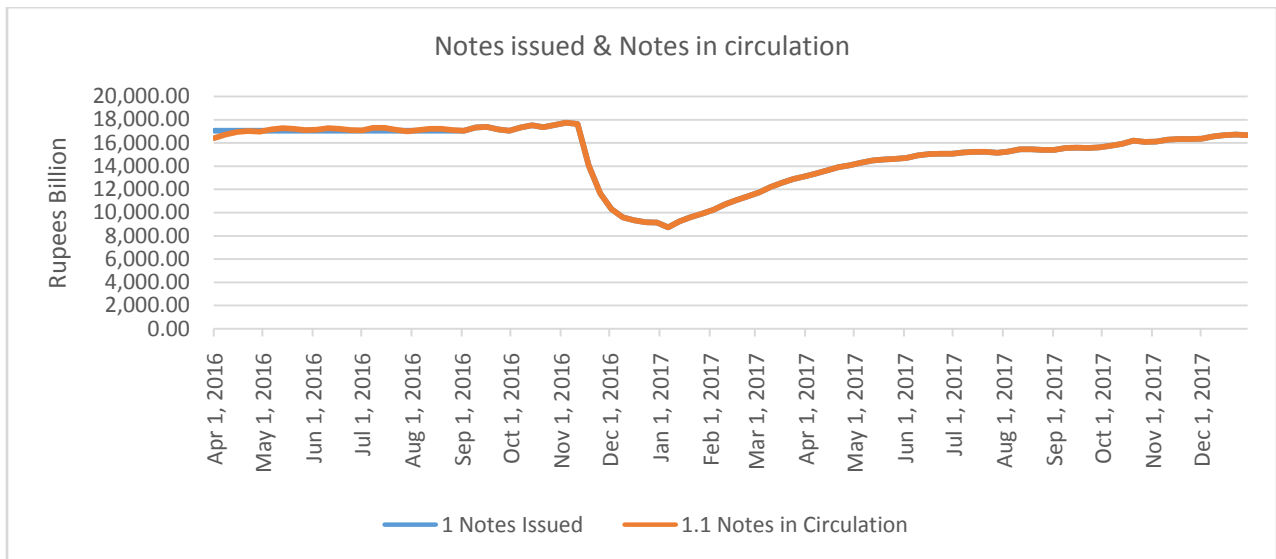
The research design considered in the study is descriptive in nature. Study is based on secondary data published by RBI, Government departments, different agencies, research papers, and news articles. Descriptive statistics is applied to analyze the data. Pre and post period of demonetization is considered for the study to analyze the impact of demonetization on financial inclusion in India.

5. DATA ANALYSIS AND INTERPRETATION OF STUDY

This study aims to examine the financial inclusion before and after the demonetization in India. The descriptive statistics such as tables and graphs are used to examine the trend and level of banking payment/transaction and financial inclusion. Analysis is presented into two sections such as section 5.1 and section 5.2. Section 5.1 consists overall banking transaction/payments pre and post demonetization. Similarly, section 5.2 consists the number of beneficiaries and usages of Jan Dhan Account pre and post demonetization.

Section 5.1: Reserve Bank of India - Liabilities and Assets (Week-End)

Graph No. 1 Note issued and notes in circulation

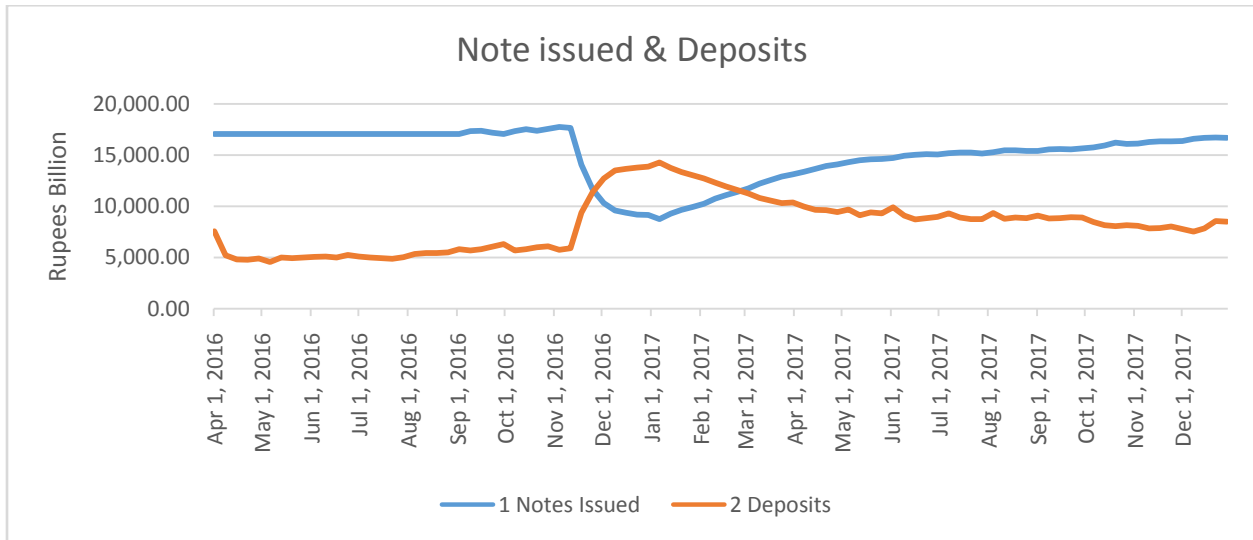


Source:Compiled by the Author from Recent RBI Data Release

Interpretation:

From the above graph , it is evident that there is drastic fall in both note issued and note in circulation after announcement of demonetization of high value notes of Rs. 500 and Rs. 1000 on November 8, 2016.This had created shortage of 86 percent of money in India.

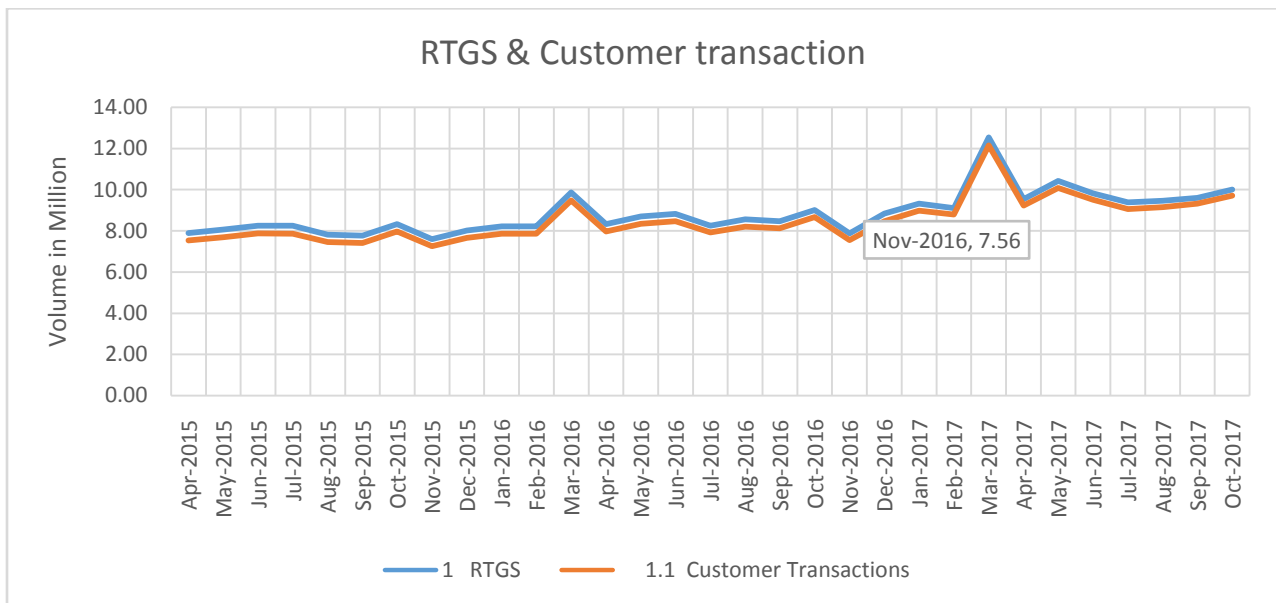
Graph No. 2 Note issued and deposits in bank account



Source:Compiled by the Author from Recent RBI Data Release

Interpretation: From the above graph, it is evident that there is shortage of money in system after announcement of demonetization. Deposit in banks has increased after demonetization particularly given deadlines of depositing the invalid notes. The first deadline was from November 10 to December 30, 2016 which was extended till 31 March, 2017 for Indian residents and 30 June, 2017 for non-residents of India.

Graph No. 3 RTGS and Customer transactions (Volume in Million)

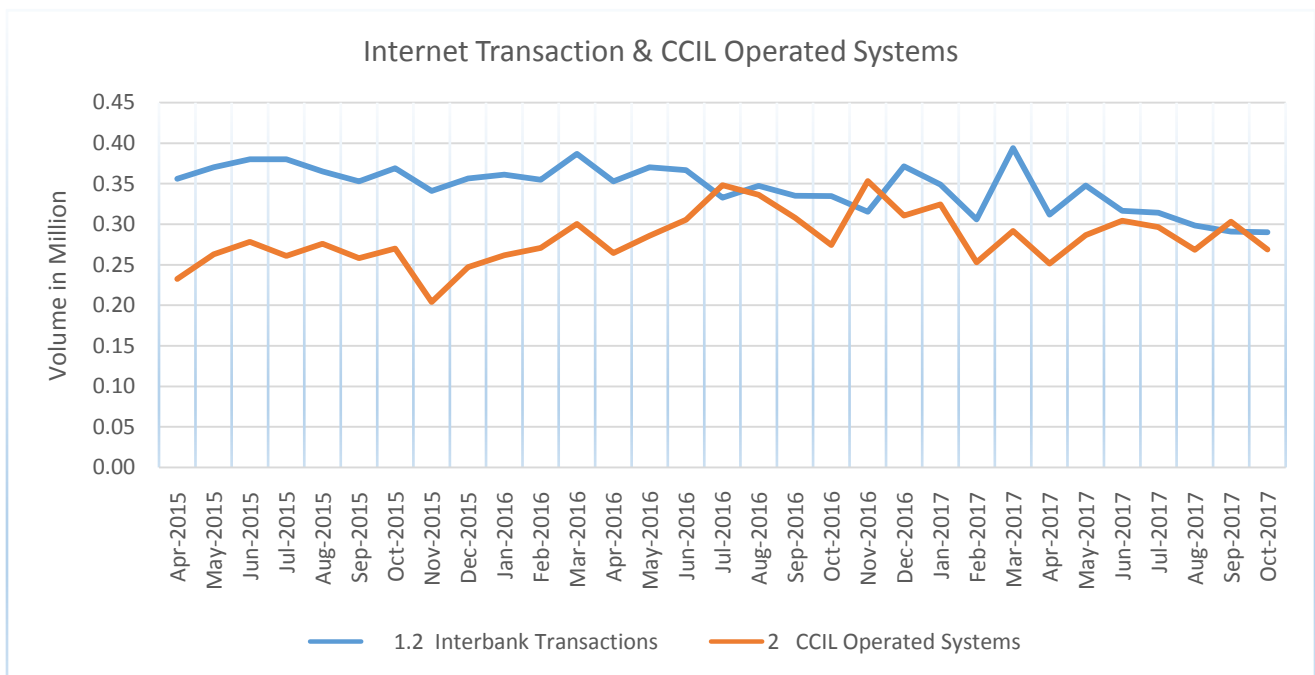


Source:Compiled by the Author from Recent RBI Data Release

Note: RTGS- amount should be Rs. 2 Lac and above. It is being process in real time(minimum time) in working day.

Interpretation: From the above graph, it is evident thatthere is sudden increase in total RTGS volume and customer transaction volume excluding inter-bank transactions after the announcement of demonetization on November 8, 2016.This has increased according to the given deadlines to deposit invalid currency in bank. The first deadline was from November 10 to December 30, 2016. Later it was extend till 31 March, 2017 for Indian residents.

Graph No 4. Interbank Transaction & CCIL Operating System (in volume in million):

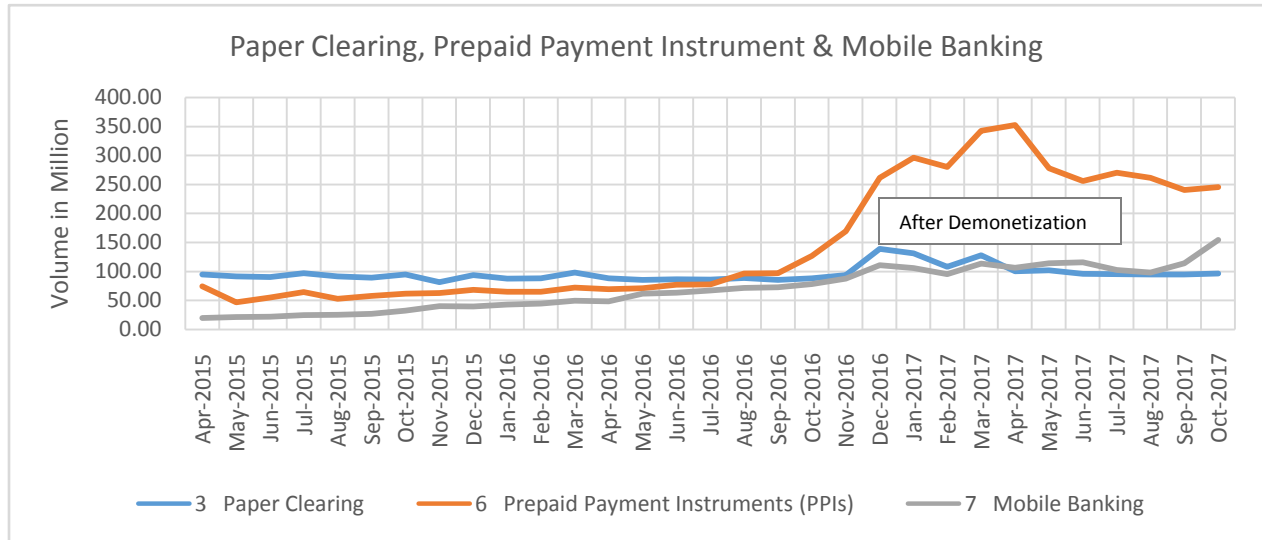


Source:Compiled by the Author from Recent RBI Data Release

Note: Clearing Corporation of India Ltd (CCIL). It ensures the online payment and product (i.e. share, stock, mutual fund etc.) are been received in given deadlines.

Interpretation: From the above graph, it is evident thatinterbank transaction and CCIL operating system has increased after demonetization.

Graph No 5. Paper clearing prepaid payment instrument and mobile banking



Source: Compiled by the Author from Recent RBI Data Release

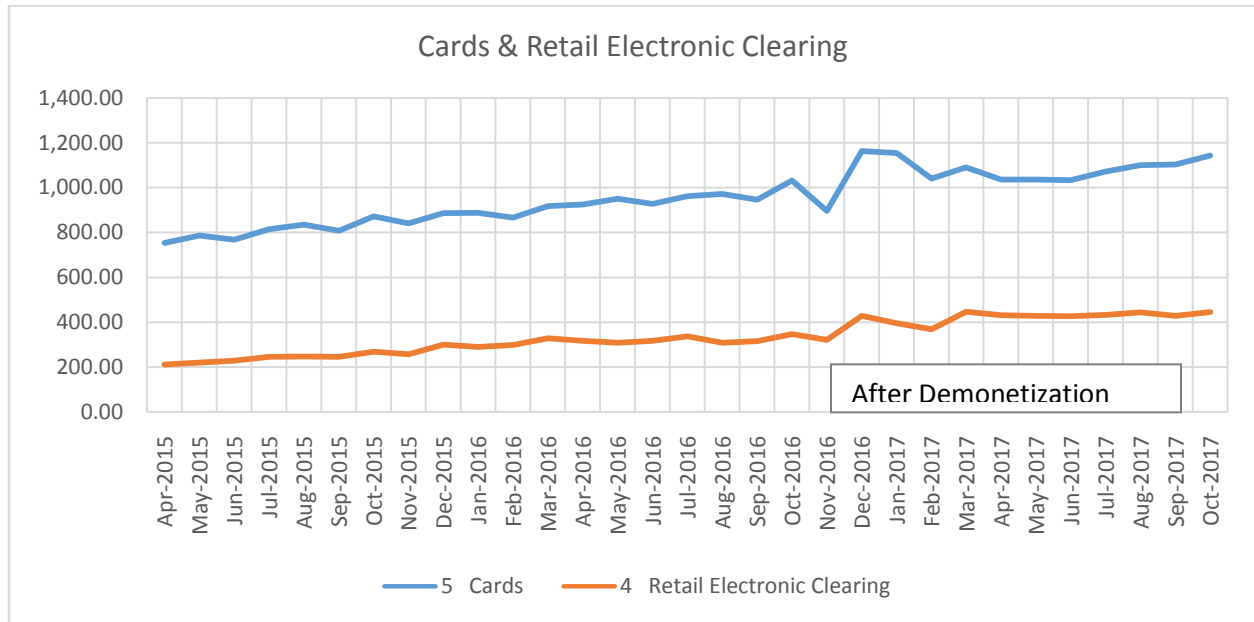
Note:

1. PCS: Paper Clearing System governs all paper-based payment instruments, i.e. cheques. All manual banking transaction other than electronic transaction are part of it.
2. Prepaid payment instruments are methods that facilitate purchase of goods and services against the value stored on such instruments. The prepaid instruments can be issued as, magnetic stripe cards, smart cards, internet accounts, mobile accounts, online wallets, mobile wallets, paper vouchers and other instruments which are used to access the prepaid amount.

Interpretation:

From the above graph, it is evident that paper clearing, prepaid payment instruments (E-Wallets) and mobile banking transaction has increased after the demonetization. This has increased more in given deadlines to deposit invalid currency in bank. The prepaid payment instruments had increased more during this period.

Graph No.6 Cards and retail electronic clearing transactions (Volume in million):

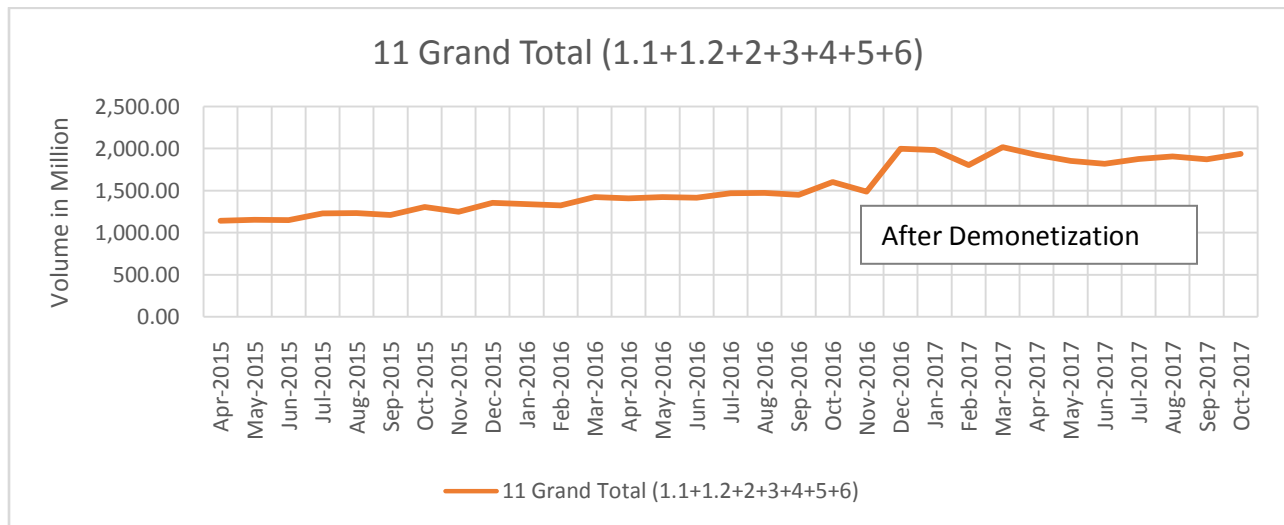


Source:Compiled by the Author from Recent RBI Data Release

Note: Electronic retailing is the sale of goods and services through the internet.

Interpretation: From the above graph, it is evident that cards and retail electronic clearing transaction had increased after demonetization. The increased in cards transaction is more during this period.

Graph No.7 Grand Total of all bank transactions (Volume in million):

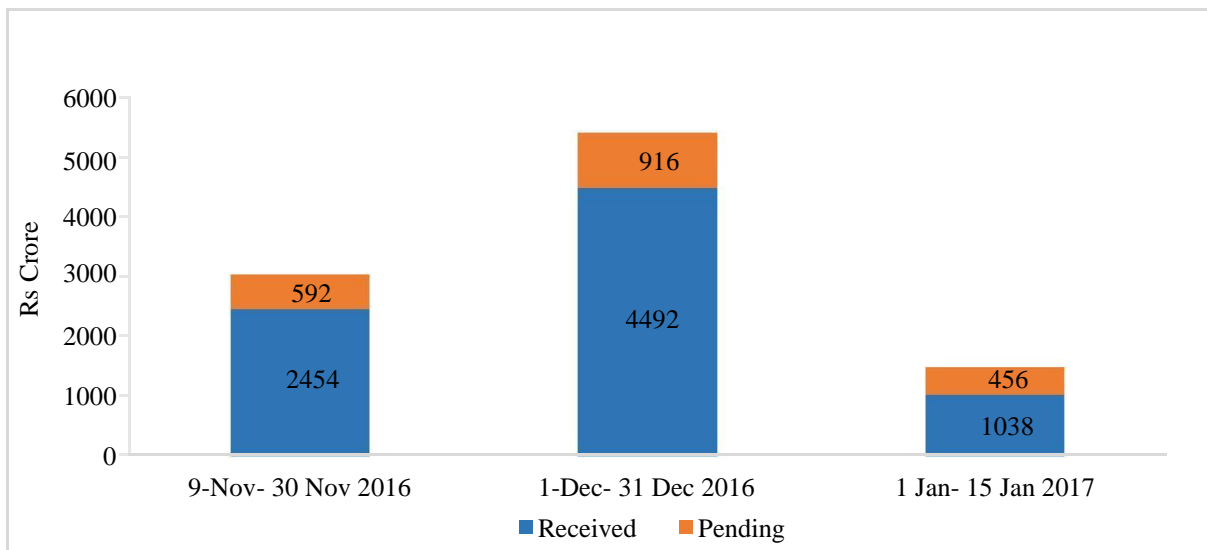


Source:Compiled by the Author from Recent RBI Data Release

Note: Grand Total (1.1+1.2+2+3+4+5+6) =1.1 Customer Transactions, 1.2 Interbank Transactions, 2 CCIL Operated Systems, 3 Paper Clearing, 4 Retail Electronic Clearing, 5 Cards & 6 Prepaid Payment Instruments (PPIs)

Interpretation:From the above graph, it is evident that there is sudden increase in total payment system after the announcement of demonetization on November 8, 2016. This has increased overall online transaction in India.

Graph No. 8 Collection of Repayments due by NBFC- MFIs and shortfall in collections



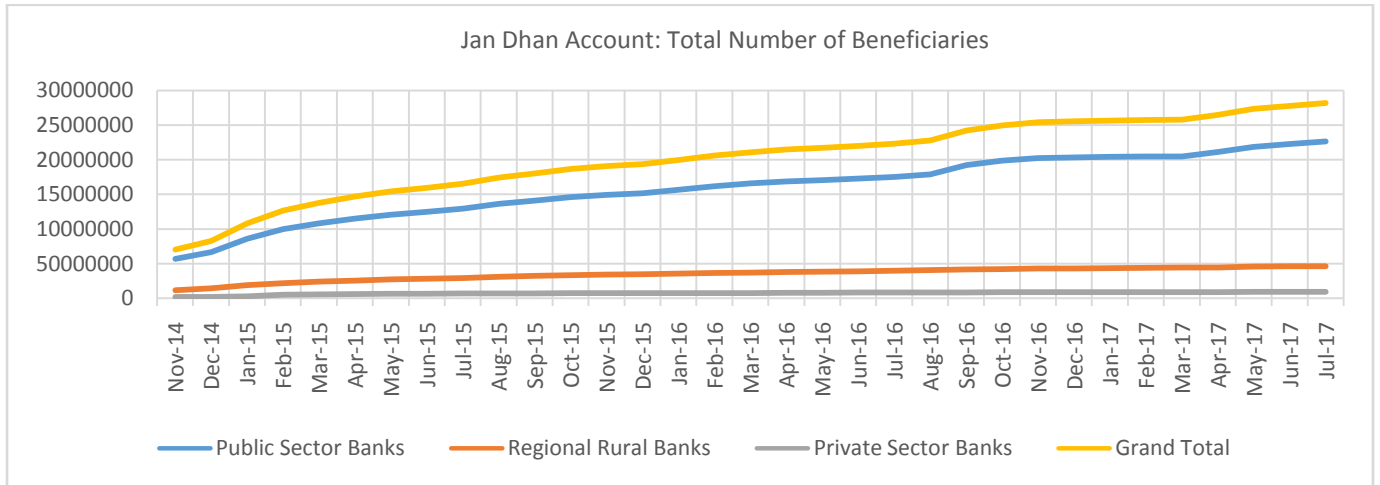
Source: Microfinance Institutions Network (MFIN)

Interpretation:From the above graph it is evident that there is significant impact of demonetization on the collection of repayments due by NBFC-MFI. The repayment collection increased by 83 percent in December 2016. However, it has drastically decreased in January as there was no cash available in the household's hands to pay.

Section 5.2:Jan Dhan Accounts Analysis (PMJDY)

The comparative analysis between pre and post demonetization of beneficiaries and deposits under Jan Dhan Accounts is presented in this section.

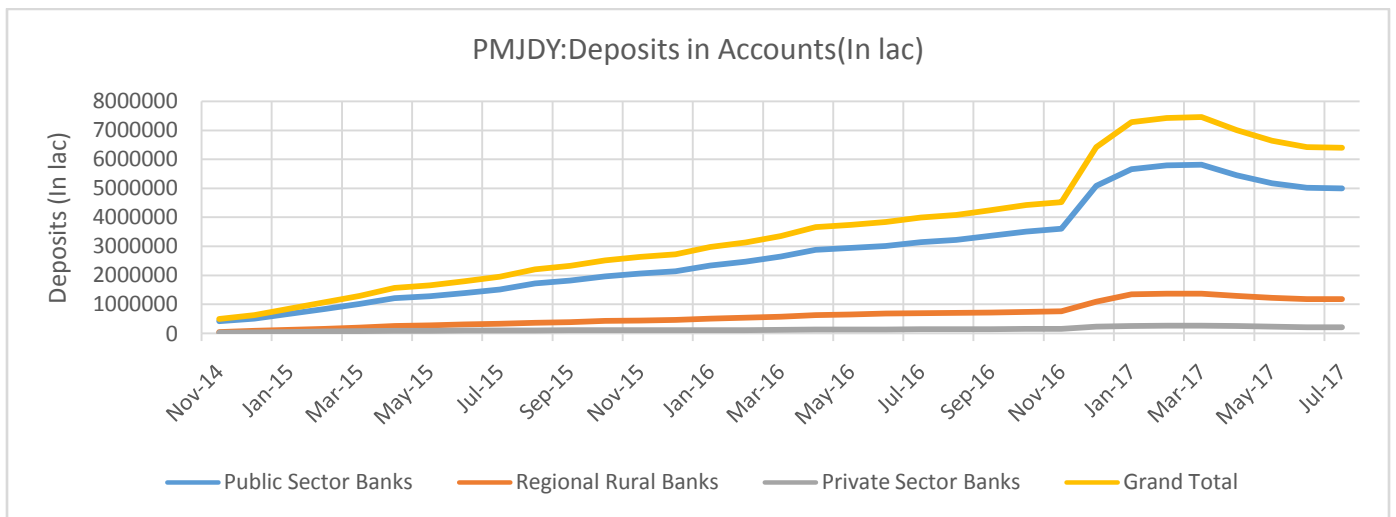
Graph No. 9 Total number of beneficiaries under Jan Dhan Accounts



Source:Compiled by the Author from PMJDY

Interpretation:From the above graph, it is evident that there is an increase in number of beneficiaries under Jan Dhan accounts after demonetization.

Graph No. 10 Total deposit in Jan Dhan Accounts



Source:Compiled by the Author from PMJDY

Interpretation:From the above graph, it is evident that there is a drastic change in deposit of money in Jan Dhan account after demonetization announcement. The impact is more on public

sector banks followed by regional rural banks and less in private sector banks.

6. FINDINGS OF THE STUDY

It is clear that there is a drastic fall in both note issued and note in circulation after announcement of demonetization of high value notes of Rs.500 and Rs.1000 on November 8, 2016. This had created shortage of 86 percent of money in India. The overall deposits in bank has increased significantly after demonetization as per deadlines. The first deadline of depositing invalid notes was from November 10 to December 30, 2016 which was extended till 31 March, 2017 for Indian residents and 30 June, 2017 for non-residents of India.

Total RTGS volume and customer transaction volume excluding inter-bank transactions has increased after demonetization. Similarly, internet transaction and Clearing Corporation of India Ltd (CCIL) operating system has also increased after demonetization. Paper clearing, prepaid payment instruments (E-Wallets) and mobile banking transaction has increased significantly. The prepaid payment instruments has relatively increased more during this period. Cards and retail electronic clearing transaction has also increased. The increase in the cards transaction is relatively more after demonetization.

There is a sudden increase in total banking payment system after the announcement of demonetization on November 8, 2016. This has increased overall online transaction in India. The NBFC-MFI collection due has increased to 83 percent in December 2016. However, it has drastically decreased in January as there was no cash available in the households' hands to pay.

The study indicates that there is an increase in number of beneficiaries under Jan Dhan accounts after demonetization. It is also evident that the deposit of money in Jan Dhan account has increased drastically after demonetization. The impact is more in public sector banks followed by regional rural banks and less in private sector banks.

7. CONCLUSION

It is concluded from the study that demonetization has affected significantly on banking payment/transaction in India. Online, electronic and digital transaction has increased significantly after demonetization. Prepaid payment instruments (E-Wallets) has also increased significantly after demonetization. Similarly there is an increase in number of beneficiaries under Jan Dhan accounts after demonetization. It is also evident that the deposit of money in Jan Dhan

account has increased drastically after demonetization. Therefore, researcher concludes that scenario of financial inclusion are more witnessed post demonetization in comparison with financial inclusion in India prior to the demonetization.

8. APPENDIX

Table No. Collection of Repayments due by NBFC- MFIs and shortfall in collections

Payment Received	Short-falls	Percentage change in Repayment Received	Percentage change in short-falls
2454	592	100	100
4492	916	183	155
1038	456	23	50

Table No: Deposits under PMJDY: Number of Accounts (in million)

Bank-Group	As on November 9, 2016			As on March 1, 2017			Variation (March 1, 2017 over November 9, 2016)		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
	Public Sector Banks	114.3	89.3	203.6	122.1	100.8	222.9	7.8	11.5
							(6.8)	(12.9)	(9.5)
Regional Rural Banks	37.1	6.0	43.1	40.0	6.4	46.4	2.9	0.4	3.3
							(7.8)	(6.8)	(7.7)
Private Sector Banks	5.3	3.1	8.4	5.4	3.6	9.0	0.1	0.5	0.6
							(1.3)	(16.8)	(7.0)
Scheduled Commercial Banks	156.7	98.4	255.1	167.5	110.9	278.4	10.8	12.5	23.3
							(6.9)	(12.7)	(9.1)

Note: Figures in parentheses are percentage variations.

Source: Pradhan Mantri Jan Dhan Yojana website.

Table No: Growth in Select Electronic Modes of Payments (y-o-y growth in per cent)

Category		Oct-2016	Nov-2016	Dec-2016	Jan-2017	Feb-2017
NEFT	Volume	16.2	23.3	39.0	38.0	34.5
	Value	37.6	38.3	40.8	60.2	49.5
CTS	Volume	-1.1	23.0	58.4	52.7	20.2
	Value	2.9	8.6	13.0	19.3	0.8
IMPS	Volume	116.7	89.6	157.2	177.7	150.4
	Value	150.7	135.9	186.6	196.7	184.2
NACH	Volume	53.0	30.8	58.3	19.8	-0.9
	Value	89.8	76.3	116.7	22.8	54.2

Source: RBI Bulletins and Press Releases on Electronic Payment Systems - Representative Data

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