

# Demonetization and Complete Financial Inclusion

<sup>1</sup>Dr. N. Balraj and <sup>2</sup>Mr. M. Vetrivel

<sup>1</sup>Head, <sup>2</sup>Assistant Professor

<sup>1</sup>Dept of business Administration, <sup>2</sup>Dept of Commerce

<sup>1,2</sup>Sri Vinayaga College of Arts and Science, Ulundurpet, Villupuram District, TamilNadu, India

**Abstract--** The world is watching India with high expectations as India is poised to become economic leader of the region. It is an imperative that India becomes shock proof to the financial crisis and other threats. In this backdrop India has taken seriously the cause of financial inclusion years ago. However, the results were not encouraging. However, the current times are more pressing. This need of the hour has to be dealt with a serious action towards financial inclusion. To become the strong economy, India needs to eradicate black money, corruption and financial crimes. In this technological era and with largest youth population, this is the best time to strike the chord of second financial reforms. The hurdles are lack of financial inclusion and financial illiteracy. It is very ironical that, though we have largest tech savvy youth population and growing literacy, many are still financially excluded. This paper will take up the issues related to demonetization and its linkage to complete financial inclusion. The paper also discusses the economic imperatives of demonetization old high denomination currency notes in India and its aftermath.

**Keywords--** Complete Financial Inclusion, Demonetization, Economy, India.

## I. INTRODUCTION

Financial inclusion is an essential prerequisite for the uniform economic development and for achieving greater economic and social equity but the presence of unaccounted money and parallel economy, making it impossible. It is necessary to bring the entire money within the framework of the law. Due to ignorance, lack of financial literacy and economic surveillance, India could not achieve 100% financial inclusion as planned in the past. This is a deterrent for the economic hegemony in the region. Government is relentlessly pursuing the matter of black money. There was a need for radical and strict action for complete inclusion. November 8, 2016 demonetization announcement is to be seen in this perspective. The year will be etched in the annals of the Indian history like year 1991 for its long standing impact owing to demonetization.

## II. NEED FOR FINANCIAL INCLUSION

In India financial services are used only by a section of the population due to illiteracy and other reasons. The excluded regions are rural, poor regions and also those living in harsh climatic conditions where it is difficult to provide these financial services. Hence, financial exclusion leads to non-accessibility, non-affordability and non-availability of financial products. Limited access to funds in an underdeveloped financial system restricts the availability of their own funds to individuals and also leads to high cost credit from informal sources such as moneylenders. Due to lack of access to a bank account and remittance facilities, the individual pays higher charges for basic financial transactions. Absence of bank account also leads to security threat and loss of interest by holding cash. All these impose real costs on individuals. Prolonged and persistent deprivation of banking services to a large segment of the population leads to a decline in investment and has the potential to fuel social tensions causing social exclusion. Thus, financial inclusion is essential for accelerated economic growth of the country.

## III. STATE OF FINANCIAL INCLUSION

Compared to the developed world, the coverage of India's financial services is abysmally low. According to the information available with the Reserve Bank of India, about 5.89 crores no-frill accounts, with and without value-added features, have been opened until November 23, 2016 of which about two-third are with the public sector and one-third with the private sector banks. Though the RBI promoted no-frills savings bank account under Jan Dhan Yojana, had all the potential to revolutionize India's rural agricultural economy, as well as usher in the banking habit amongst a large number of the less privileged population. However, considering to the vast multitude of the Indian population the number of accounts opened is not encouraging for the cause of complete financial inclusion. After current demonetization drive the financial inclusion is being carried out in various ways as people are seeking respite from the currency shortage. People are being forced to use electronic banking services and digital platforms. Banks have been pushing the cause of complete financial inclusion.

## IV. FACTS OF DEMONETIZATION

November 8, 2016 demonetization announcement involved the task of replacing more than 22 billion pieces of Rs.500 and Rs.1000 notes for 1.3 billion citizens through 1.3 lakh branch outlets was a Herculean task. Historically, nowhere in the world has a similar exercise been undertaken at this massive scale. It is a reaping time for the banks that made considerable investments on digitization of banking services. The alternate platforms – cards, internet banking, mobile banking, PoS terminals - have further gained momentum post demonetization announcement. An average daily debit card transaction has almost doubled and demand for PoS machine installations has increased 2-3 times. Due to the prevailing economic scenario India witnessed a surge in digital transactions and mobile transactions. This development is to be seen instrumental in achieving complete financial inclusion.

## V. RATIONALE OF DEMONETIZATION

India is swiftly increasing in terms of growth and standing in No.1 position in terms of growth but ranked 76 in Global Corruption Perception Ranking. It is no secret that the evil of corruption and black money also have grown beyond the control of the system. Infact they are influencing the system and weakening the efforts in financial inclusion. Also, existence of huge number of high value currency notes has created conducive environment for hoarding black money, corruption in business and politics and funding of terrorism by hostile countries. Therefore demonetization was on the anvil as one of the major steps to make economy free of these evils. The primary steps were already taken during the last two years viz., Aadhar seeding to gas and other services making PAN compulsory for high value transactions, Prime Minister's Jan Dhan Yojana of no frills accounts and recent Income Disclosure Scheme. These policies have been adopted under the recommendation and pressure of the experts and the need to eradicate economic evils. These efforts directly or indirectly will culminate into complete financial inclusion.

## VI. EFFECTS OF DEMONETIZATION

The alternate platforms – cards, internet banking, mobile banking, PoS terminals have further gained momentum post the demonetization announcement. However, there is heavy disruption to the business due to which growth expectations have reduced. International rating agency Fitch has lowered India's GDP growth to 6.9% for the financial year 2017. The following are the other effects:

1. It may cause deflation in the market as people who have earned money through illegal ways would be afraid to declare the money in fear of prosecution due to the illegitimacy of the income.
2. It has already lead to reduction of money circulation in the economy and this may result in deflation
3. A lot of cash which are legally earned will be deposited in the banks and now the banks with more deposits will be able to do more lending and the rate of lending may come down. Accessibility of loans will become easier and as interest rates reduce economic activity will be boosted.

## VII. ADVANTAGES OF DEMONETIZATION

1. The demonetization decision taken by the government will help to eliminate black money and corruption to large extent
2. Due to lack of funding there will be no arms smuggling and all the terrorist activities will also be reduced
3. Withdrawal limits set by the RBI has reduced currency circulation. Therefore card transactions will slowly replace the cash transactions in daily activities
4. The regulations for exchange of money in banks on producing a valid identity card like PAN, Aadhar card and electoral card will facilitate the government to track the money which is being exchanged
5. Financial Intelligence Unit will track all details of the transactions from the banks. Therefore, now it is difficult to hide the black money
6. Real estate industry will have more transparency and credibility, making it more attractive to the foreign investors as well as domestic investors.

## VIII. DISADVANTAGES OF DEMONETIZATION

1. It has caused great inconvenience to common man who struggled to exchange old high denomination notes
2. Replacing all the old high denomination notes, as ordered by the government, could heavily cost the RBI
3. The general business activity has tremendously effected resulting thousands of crores of loss to the national income after demonetisation announcement
4. It has taken a toll on half of the population who are not well versed with the card transactions
5. The major problem is that big fishes will be left out whose black money is in the form of foreign currency, gold and property and stashed in tax havens
6. The ATM recalibration will take time

## IX. ROLE OF BANKS IN HANDLING DEMONETIZATION

Bank has led from the front in successfully reaching out to the customers in their banking transactions, be it waiver of charges or extended business hours into late evenings or to go out of their way in supporting senior citizens and women customers as well as noncustomers.

## X. DEMONETIZATION AS A TOOL OF FINANCIAL INCLUSION

Demonetization has become blessing in disguise to the cause of financial inclusion. It is resulted in rapid banking education to the vast multitude of unbanked and semi-banked population otherwise impossible. Though demonetization has halted all regular banking business operations and loss of revenues temporarily, it has not gone waste and served the purpose of financial inclusion.

## CONCLUSION

The rewards of demonetization are much encouraging and the demonetization is in the long term interest of the country. Government need to ensure that there will be a smooth flow of currency exchanges. Demonetization will have a massive impact on parallel economy. The current demonetization initiative by the Government of India will take Indians ten steps ahead. Though it is has given temporary pains, it taught financial lessons. It will also impact corruption, elections and terrorism. It is a reaping time for the banks that made considerable investments on digitization of banking services. The cashless and transparent mechanism has gained momentum post demonetization. It has led to increased financial inclusion and this momentum should be continued till India achieves complete financial inclusion.

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