



Original Article

Investigating the Problem of Soiled Notes With Reference To Clean Note Policy

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Abstract

The issue of soiled notes though not serious but need to be addressed as there is provision for the exchange of these notes. Currency notes act as the most liquid form of money for quick transactions. The frequency of money declines due to availability and affordability of various digital platforms. Still, many people use currency notes for day to day transactions. Consistent wrong handling generates soiled, mutilated, imperfect notes which paves way for the circulation of counterfeit notes. To avoid the occurrence of counterfeit notes and block the channels of black currency, the Reserve Bank of India directed all banks to accept these notes and provide good and fresh notes to the public. This paper tries to explore the causes for the generation of soiled, mutilated notes and focus on problems like how these notes can result in money hoarding, circulation of damaged notes and finally ruin of notes if not presented in the bank. To facilitate the smooth flow of currency notes banks must accept these notes and insert good and perfect notes in the economy through currency chest. It is crucial to educate the public about the ways to handle the currency notes and encourage them to exchange in banks in due time.

Keywords: Soiled Notes, imperfect and Mutilated Notes (SIM), Currency notes, RBI, Clean Note Policy (CNP)

Introduction

“Bhaiya, dusari note do.” We frequently hear this dialogue from the people. No one accepts a note which is torn and imperfect. If somebody gets it, they want to get rid of it at the first available chance. When such a note moves from hand to hand, it gets worse and finally of no use. Hence the circulation of good, clean and perfect notes do not take place. It also affects the efficiency of banks as well as customer services as these notes do not fit in counting machines, dispensing machines, ATMs etc. The Reserve Bank of India issued guidelines for the exchange of such notes. All the public sectors and private sectors banks including cooperative banks are instructed to exchange soiled and mutilated notes and avail fresh and good notes to the public. This paper will highlight certain issues of soiled, mutilated notes and will also discuss the causes of the generation of these types of notes. It will be wise to underline the impact of circulation of such notes on the velocity of money and transactions made by money in the economy. Reserve Bank of India (RBI) operates currency system through its 19 Issue Offices* which receives fresh currency from Currency Printing Offices**. Issue Offices send currency to Currency Chest owned by Commercial/Cooperative Scheduled Banks.

Reserve Bank of India (RBI) has categorized notes as follows.¹

1. Soiled Notes: are those notes which have become dirty and slightly cut.
 2. Mutilated Notes: are those notes which are in pieces or/and of which an essential portion is missing.
 3. Imperfect Notes: means any note, which is wholly or partially, obliterated, shrunk, washed, altered or indecipherable but does not include a mutilated note
 4. Mismatched Notes: means a mutilated note which has been formed by joining a half note of any one note to a half note of another note.
- Ahmedabad, Bengaluru, Belapur, Bhopal, Bhubaneswar, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Jammu, Kanpur, Kolkata, Lucknow, Mumbai, Nagpur, New Delhi, Patna, Thiruvananthapuram

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- Bank notes are printed at four currency presses, two of which are owned by the Government of India through its Corporation, Security Printing and Minting Corporation of India Ltd. (SPMCIL) and two are owned by the Reserve Bank, through its wholly owned subsidiary, Bharatiya Reserve Bank Note Mudran Private Ltd. (BRBNMPL). The currency presses of SPMCIL are at Nasik (Western India) and Dewas (Central India). The two presses of BRBNMPL are at Mysuru (Southern India) and Salboni (Eastern India).

Abbreviations and Acronyms

SIM Notes- Soiled, Imperfect and Mutilated notes, CNP- Clean Note Policy, RBI- Reserve Bank of India.

Literature Review:

The concept of clean note policy was tossed for the first time in 2000. There is no such research work on the topic except RBI's press notes which only gives directives and highlights the conditions and need to implement clean note policy. Researchers could not find any article or essay on the topic. Newspaper editorial and certain news articles were discussing the process of demonetization which included the issuance of ₹2000 and its circulation. They focused on the lifespan of currency notes and its withdrawals. Lifespan of a currency depends upon the frequency of transaction of note. Higher denomination is often used for saving so carries longer lifespan as compared to lower denomination.²

The discussion regarding the denomination available prior to demonetization that is ₹10, ₹20, ₹50 and ₹100 is not discussed in newspaper articles as well. This paper will try to get attention towards the problem of imperfect, mutilated notes especially having the denomination of ₹10, ₹20, ₹50 and ₹100.

Objectives:

1. To understand currency management of RBI and the role of clean note policy in currency management.
2. To emphasize the importance of clean note policy in the growth of the economy.
3. To check awareness of people about RBI Mutilation Policy.
2. To know the causes of soiled/mutilated notes.

Methods:

The research is completely based on the primary data collected through personal interviews. The paper currency is used by all so the size of the population is very large. The parameters of the target group is that it should use paper currency as well as digital currency. Sample also comprises all age groups as the high age group samples may not be comfortable with digital currency. To select a sample researcher used incidental sampling and took interviews of nearby people and circulated questionnaires through mail also. Hence researcher considered sample size as per the convenience. Responses were collected and analyzed through simple graphs and pie charts.

Limitations: 1. The conclusion drawn from the incidental sampling may be misleading.

2. Use of digital and plastic money is ignored which can slow down the process of mutilation of paper notes.

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Statement of Problem:

Demonetization has paved a way to circulate the clean notes of high denomination in the economy. Lower denomination notes are circulated in the economy with high frequency³ which are observed as soiled/mutilated notes. When new currency is ejected in the economy it is necessary to withdraw old and bad currency from the flow. In this regards; why do lower denomination notes turn to bad notes and what is the system of RBI to take away these notes from circulation? Paper also tries to trace the handling habits of currency notes of people. This article will give a few insights.

Clean Note policy of RBI:

Currency acts as a blood for any kind of economy which helps the economy to grow and stay alive. The velocity of money indicates the number times the currency flows in the economy which further maps the transactions made by it. According to Kamesam (2003), the value of lower denominations is too little though their volume is enormous. ₹1, ₹2 and ₹5 notes account for just one per cent of the total value of currency issued, while they account for about 15 percent of the total volume. Similarly, ₹10 notes account for only 3 percent of the total value, while their share in total volume is 25 percent.⁴ It means that currency with lower denominations are frequently used and at high risk to get damaged. On the other hand, high denomination notes are rarely used for transactions. In the era of digitalization it has lessened down significantly. People prefer online transactions instead of carrying currency in pocket.

RBI pointed out the facts and issued guidelines for the exchange of soiled, imperfect or mutilated (SIM) notes. This is named as Clean Note Policy (CNP). CNP was announced in 1999 and came into effect from 2000 with the twin objectives of withdrawal of SIM notes and pumping new, fresh notes in the economy. All banks PSBs including cooperative banks are instructed to accept SIM notes and circulate good banknotes in the economy. Section 27 of the RBI Act imposes an obligation on the Bank to maintain the quality of note issue by stipulating that the Bank shall not reissue currency notes, which are torn, defaced or excessively spoiled. Arrangement to make refund of the value of such notes in accordance with the rules called the Reserve Bank of India (Note Refund) Rules, which have been framed for this purpose in terms of the provision to Section 28 of the RBI Act⁵. RBI

has set the target for banks under which banks need to pump in a certain amount of fresh and perfect currency notes and coins and pump out SIM notes from the economy. It is also informed to decide the day of collection of these SIM notes by a particular bank as per its convenience and inform the public to exchange SIM notes. To get a good, durable note is a citizen's right as a citizen and also supports the economy for efficient transactions.

As per the policy the SIM notes are collected in the Issue office of RBI where the notes are categorized as notes to destroy and notes to reuse. Notes which suit for the transactions are resent into the flow and notes that need to be destroyed are shredded and briquetted online. Currency Verification and Processing System (CVPS) examines, authenticates, counts, sorts and destroys the unfit notes on-line. The cost of running this system is huge. It is also recommended that the lifespan of banknotes shall be increased. It should not get affected by dust, moisture etc. The life of currency notes also depends on the various ways of handling. RBI strictly instructed not to staple the notes and not to write on the note to preserve their value in the economy. It is very interesting to know the facts from the public. A short survey was conducted to understand the habits of people while handling the notes. The survey came up with various insights.

Results:

Key findings are - i. RBI has launched CNP to activate new, fresh currency notes in the economy and to eradicate SIM notes from the economy. It will help the flow and velocity of good money, removal of counterfeit notes, strengthen the financial system and hence grow and develop the economy speedily. ii. RBI runs CVPS to support CNP which examines and destroys SIM notes. iii. RBI has given instructions to banks from time to time for the successful implementation of CNP. iv. The survey reveals few significant observations. These are as follows-

1. New currency notes introduced after demonetization are more durable than old notes.
2. Respondents are aware that banks accept SIM notes and many of the respondents follow this practice.
3. Currency notes with lower denominations are highly volatile and subject to get damaged. Comparatively higher denomination notes carry less frequency as these transactions are digital.
4. Digital transactions are deeply rooted amongst the public and help to reduce the burden on the supply of fresh notes in the economy.
5. The general habits pursued by people like writing on notes, keeping them forcefully, allowing notes to get wet, folding notes etc. leads to the generation of SIM notes.
6. The most dangerous part is the acceptance of SIM notes by unauthorized bodies which are not banks.

Discussion:

The analysis of the survey has been explained in five segments; a. general statistics, b. occurrence of SIM notes to people, c. use of digital mode of transaction, d. dealing with SIM currency notes and e. causes of generation of SIM currency notes.

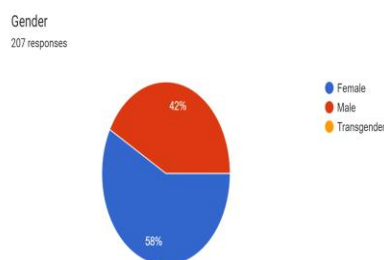


Fig. 1 Gender Distribution

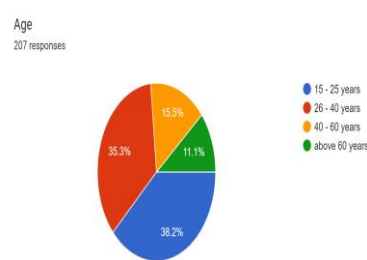


Fig. 2 Age Distribution

Researcher interviewed a total of 207 samples out of which 73.5 percent of samples are up to 40 yrs. old means very much comfortable with digital transactions. 15.5 percent of samples are from 40yrs-60 yrs. old and remaining are senior citizens. Out of 207, 42 percent are male and 58 percent are female respondents. Hence, the sample represents all strata of the age groups and sufficiently a representative sample.

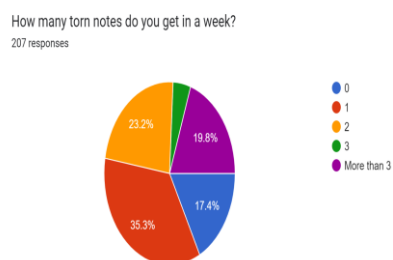


Fig. 3 Probability of getting SIM notes in a week

In Fig. 3 respondents replied that they receive at least one SIM note in a week which may increase up to 3 in numbers. It indicates that SIM notes are highly circulated in the economy and being handed over many times. As stated above lower denomination notes are widely circulated and hence are at high risk to get damaged. For instant; 190 out of 207 respondents

replied that they get ₹10 note frequently; so highly circulated and proven to get damaged. ₹10 note is followed by ₹20 and ₹50 whose percentage is 83 percent and 25.1 percent respectively. There are 1% respondents who happen to receive ₹500 damaged notes. The reason is quite obvious that higher denomination currency is not being used as these transactions are made digitally.

Do you use UPI payment?
207 responses

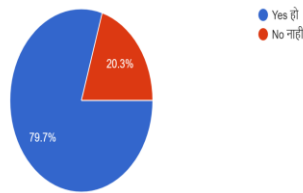


Fig 4 Use of UPI

Approximately up to what level you prefer cash payments?
207 responses

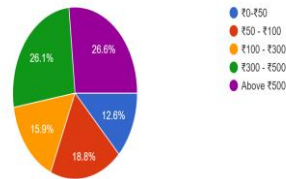


Fig 5 Extend of UPI Payments

Do you think that new notes are more durable and handy than old notes?
207 responses

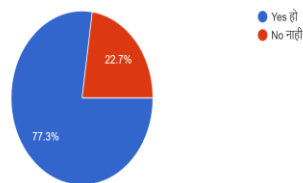


Fig 6 Comparison between New and Old Notes

Do you feel danger in digital payments for transactions of less amount?
207 responses

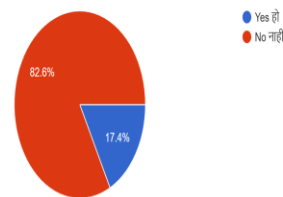


Fig. 7 UPI Security

Fig. 4, Fig. 5, Fig 6 and Fig 7 is about the practice of digital transactions. After demonetization, the reach of digital apps have increased significantly. According to a survey 79.7 percent of people use digital apps for transactions and they feel it secure. Only 20.9 percent respondents prefer cash transactions after demonetization. It is observed that 12.6 percent of respondents prefer cash transactions only for up to ₹50. 26.6 percent respondents prefer cash transactions up to ₹ 500. Higher denomination transactions are done online. There were 34 respondents who do not use UPI mode of payments which indicates that they prefer cash transactions. So, the frequency of currency notes up to ₹500 is significantly high and hence the threat to get damage is also high. These respondents felt that new notes issued after demonetization are more convenient and handy. It is quite obvious that if somebody is not using UPI then the frequency of currency notes increases and hence the probability to get damaged also increases. Still only 8 out of 207 respondents are of the opinion that new notes are not durable and get damaged early. Though it can be clearly stated that the quality of new currency notes have increased.

Do you know that banks accepts torn notes?
207 responses

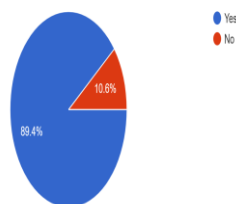


Fig 8 Awareness about CNP

Do you repair the torn note before circulating to others?
207 responses

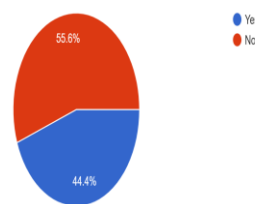


Fig 9 Percentage of repaired notes by respondents

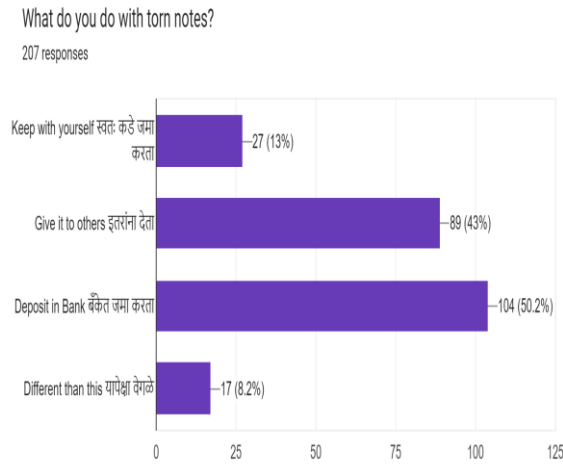


Fig 10 Treatment to SIM notes

The next segment of the research is the awareness of people regarding clean note policy. Fig 8, Fig. 9 and Fig. 10 explains about it. Instead of the direct question about clean note policy, researchers asked whether they know that the bank accepts SIM notes. 10.6% of respondents are not aware about the fact that SIM notes are being accepted in the banks and should get exchanged with the same value. Though the percentage is not significant, it raises the question of the awareness campaign of RBI. The figure may be exaggerated if the survey could have been done in a rural area. It is important to inform people about banks' clean note policy and its provisions. The next question was asked about the respondent's action when they get a SIM note. Everyone tries to get rid of damaged notes as everyone understands the importance of good notes and the various transactions they carry out in a day. Everyone wishes to get a good and fresh note if they are engaged in physical transactions. It is found that respondents follow various methods to manage damaged notes. Fortunately 50.2% (104) of respondents deposit SIM notes to the bank. 43% and 13% of respondents pass on these notes to others and keep with themselves only respectively. Both actions are not supportive to the economy. When people pass the same damaged currency to others they allow the flow of such notes in the economy and the note gets worse after each transaction. It was also observed that 55.6 percent of respondents do not repair the note. We generally know that the notes can be repaired simply by sticking transparent cello tape. These efforts are not taken by the people and damaged currency notes keep on circulating in the economy. Another way is much more dangerous than this. When the money is kept at home, it generates idle money that is thrown out of the economy. The value transaction of that amount affects the economy. The currency seems to be in the economy but actually it is not in flow which directly affects the multiplier effect which is considered crucial for the growth of the economy. 8.2% respondents follow different ways to deal with SIM notes. It is observed that in some areas local shops accept SIM notes and exchange them for lower value. When the customer gives a damaged note of ₹10, the customer receives ₹8. This clearly indicates the existence of non-organized banking activities being conducted without any fear. The interviewers came across such shops and found the truth. It is a serious concern for our organized banking system which indirectly supports the creation of black money. These practices must be stopped in time. It is also observed that some banks refuse to deposit SIM notes which is the important reason for encouraging these shops. A separate study must be conducted to list the banks following CNP. It will help to evaluate the application of CNP at grass root level.

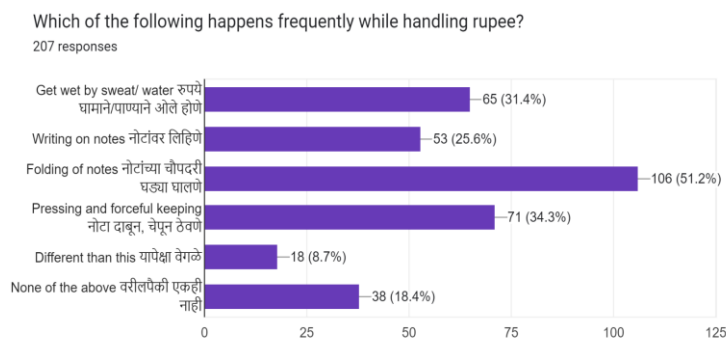


Fig 11 Habits of respondents

The last segment is about the habits of people while handling currency notes. It will throw light on the fact that people are not aware about the importance of currency notes. In general practice it is observed that currency notes are handled very badly. Four major common actions are identified by the researcher by the day to day observations. According to Fig. 11, Currency

notes get wet by sweat or water, writing on notes, folding of notes and pressing the notes in the pocket forcefully are the common actions repeated by people. 51.2 percent of people fold the notes, 34.3 percent of respondents keep notes by pressing forcefully in their pocket or purse, 31.4 percent of respondents agreed that they keep currency notes in such a way that it gets wetted, loosened and hence becomes dull. It is one of the important reasons for damaging currency notes. 25.6 percent of respondents are habitual with writing on notes. It is also observed that bank employees also follow this practice. However, RBI has instructed not to staple, write and fold the notes.⁶ 8.7 percent of respondents reacted that they follow different actions than mentioned above which turns the fresh, good currency note into a SIM note. Only 18.4 percent of respondents keep notes in the good manner and secure them to turn to SIM notes.

Suggestions:

The implementation of CNP seems to be on paper. People know that the banks accept such notes, but many people avoid visiting banks for this purpose. Though the concept is not known, the consequences of having a SIM note are well identified by the people. RBI has instructed all types of banks to devote a day and specific time period to accept these notes and make it public to spread awareness about the flow of fresh and new currency notes in the economy. It is a matter of concern for the effective growth of the financial system. Public must be given knowledge about the handling habits of notes so that the probability of generation of SIM notes can be minimized. This study paved a way to explore many issues like analyzing the awareness amongst the public regarding CNP and how sincerely they follow the norms set by RBI to increase the lifespan of currency notes, the performance of CNP in different areas of country with effective comparison between rural and urban areas and commercial banks and cooperative banks, comparative analysis of expenditure incurred on the production of old currency note and new currency note with reference to frequency, velocity and value addition of currency notes; which also involves multiplier and accelerator effect etc. This study was specifically focused on habits of people which is considered the reason for the generation of SIM notes. Banks must educate the public regarding the handling of currency notes through campaign, distributing leaflets, television advertisements etc. it will also increase the reach of CNP at the grass root level.

Conclusion:

Money plays a crucial role in the growth of an economy. Before digitalization of the financial system the velocity of currency notes was very high, it was lessened down in the period of demonetization. Demonetization had a dual effect viz. it helped to eradicate counterfeit currency and increase the use of digital apps at mass level. Use of UPI affects the velocity of high denomination currency notes. According to a survey people prefer to exchange lower denomination currency notes hence it was observed that ₹10, ₹20 and ₹50 currency notes get damaged early as compared to ₹100, ₹200, ₹500 and ₹2000. Now, it comes to CNP which is meant to withdraw SIM notes and insert perfect, fresh notes in the economy. RBI runs CVPS for the effective implementation of CNP. The policy decision making is appreciated but it also be evaluated whether the policy is working at micro level. This survey tried to answer this. With a sample size of 207 it was concluded that people deposit SIM currency notes in banks but they are not aware about the handling habits. Many people do not care about the physical status of notes when transacting. Because of the wrong handling habits, notes get damaged. These damaged notes are not repaired and passed on for further transactions. It was also observed that banks do not follow the norms of RBI where they are supposed to declare one day for the collection of SIM notes. In the light of above discussion RBI needs to take strong steps and compel all banks to follow norms designed in CNP meticulously.

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Conflicts of interest

There are no conflicts of interest.

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