

“Demonetization- An inducement to E-commerce and Digital Payment Methods”

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Abstract:-It is precious to reflect on how the financial environment changed after the November 8, demonetisation. This paper will highlight the impact of current demonetization move on E-commerce in India. This paper will give a brief overview of the purpose of demonetization. This impact is for short duration or long duration will be analyzed through this paper. The initiative to withdraw large-denomination currency from the market, has led to massive adversity to the lives of millions of people in the country's mainly cash based economy. This cash-crunch has also impacted the “Cash on Delivery” model of e-commerce industry. So, the author will try to make it clear what amendments need to be introduced in the routine of consumers to counter this demonetization move. The entire transformation from cash based economy to cashless economy has forced everyone to adapt various new modes to revive and sustain in the market. In nutshell, an effort has been made to understand whether the Indian economy will ever lose its' propensity to deal in cash or whether the digital empire will take over and entirely revolutionize the facade of Indian E-Commerce.

fiscal space of the government with black money discovered. The fourth claim is that demonetization would reduce interest rates in the banking system.

The fifth expectation is that demonetization would help formalize India's informal economy.

The major goals of demonetization were to relieve the economy of fake currency and hit out at tax evaders who had combined their dishonestly acquired wealth in the form of high value currency notes.

Further, if corruption itself cannot be addressed, we may very well end up with a scenario where new black money will drive out old black money from the system. One can see that the move is destabilizing a stable and fast growing economy. Economy is facing distress and loss of confidence in the wake of currency reform. Despite long bank and ATM queues, overall economy is suffering with a plunge in expenditure, due to the falling demand, reduced confidence in the government and sharp decline in corporate bond yields (Patil, 2016).

I. INTRODUCTION

The word ‘Demonetisation’ has become a buzz word these days. It is one of the major reforms in the economic environment of the country. Youth of the country has faced it for the very first time in their life span. Demonetisation refers to the concept of taking away from the currency its value as a legal tender (Kumar, 2016). It means old unit of currency becomes expired and is replaced by a set of new currency. Prime Minister of India on November 8, 2016 had given a verdict to demonetize currency notes of Rs 1000 and Rs 500 from midnight of the same date. They gave 50 days time period till 30 December, 2016 to exchange or deposit the currency notes retained by them. This move was primarily taken to curb black money or eliminate counterfeiting of notes and hit out at tax evaders. But this government initiative has affected the lives of millions of people of the country. Not only the individual lives, but business houses whether small or big have also been affected. The transformation from cash based to cash less economy has affected the E-commerce extremely. A number of incentives have already been offered by government to induce people to use digital transactions.

On the contrary, the success stories across developed nations like the introduction of Euros in 2002 and the decimalization of the British pounds reflects a positive outlook for the demonetization in India. Demonetization has also resulted in fall in the credit cost, which could be used to increase the investment potential of businesses. Secondly, demonetization will result in a digital India, thus making all the transactions convenient and minimizing possibilities of tax evasions in future.

To stay afloat and conquer the challenges demonetization has posed, offline retailers are encouraging consumers to move away from cash and are giving various payment solution alternatives to avoid purchase hindrances.

II. INDUCEMENT TO CASH-LESS RETAIL

Kishore Biyani-led Future Group, which operates Big Bazaar, the largest retail chain in the country, is encouraging consumers to use cards.

A. Purpose and Extent of Success

The first motive behind demonetization was to stop terror financing. And then second one was to expose “black money”. The third purpose was to expand the

“In our urban stores, around 40 per cent sales happen through cards. In smaller towns and cities, that number is around 25 per cent. We will introduce cheque payments and encourage people to go digital. We are also going to promote debit card, digital

payment and gift cards,” CEO, Future Group, Kishore Biyani was quoted as saying in an interview.

Importantly, the fact that retailers will encourage alternate/ digital payment solutions will help the marketplace become more transparent and structured.

There is no doubt that demonetization is a great move for a better future of India and its economy. It will definitely influence many more shoppers to start using plastic money in the long-term. Already, malls see usage of credit/ debit cards and e-Wallets go up during big sales, when banks and fin-tech start-ups offer cash backs or discounts.

Giant Retailer, Big Bazaar & FBB stores now allow customers to withdraw upto Rs 2000 from their bank accounts with the use of debit cards. They have collaborated with **State Bank of India** and as a result are enabling this facility through the bank's cash at POS machines in 258 of their stores located across 115 cities and towns. V-Mart (one of the most renowned chains of family fashion stores in India) is enabling Smart ATMs in 136 stores across 116 cities, which will enable people to withdraw up to Rs 2000 with their Debit cards. Apart from trying to provide convenience for people by providing them with an alternative to standing in long queues in banks and ATMs, it can be called a strategic move on the part of these retailers to maximize store traffic and score conversions.

Apart from ordering for card-swipe machines, retailers are exhibiting a huge tendency of resorting to **mobile wallets** and **digital payment services** for the purpose of receiving payments. Customers too are adopting these services to make payments due to the liquidity crunch.

i) A year before demonetization took effect; the mobile wallet user base in India had already surpassed the total number of credit cards. **According to data by RBI, there were already 135 million mobile wallet users in India in comparison to 22 million credit cards by November 2015.**

ii) Paytm, the country's renowned mobile payment platform experienced an overwhelming increase of 435% increase in overall traffic as millions of people resorted to the Paytm wallets to make payments immediately after the demonetization announcement. They experienced a 200% hike in number of app downloads and 400% growth in transaction value of offline payments.

The numbers above makes it quite obvious that customers are willing to make payments digitally. Mobile wallet companies like Paytm, Mobikwik, Freecharge, Oxigen, etc have established quite a huge market share over the course of the last twelve months. The increase of demand of digital payment systems and digital wallets post demonetization shows how the Indian economy can last without it being

completely cash intensive when left with limited options.

Demonetization has also in a way pierced some of the traditional barriers preventing Indians from **adopting digital payment solutions** such as the habit of using cash, complexity and unfamiliarity of digital payment systems, lack of compelling value proposition, and anxiety over fraud and network security.

Nevertheless, the current payments landscape presents a huge opportunity for digital companies. Additionally, the demonetization move has not only forced individual consumers to adopt alternative payment mechanisms but also large sections of the unorganized sector who have been badly hit by the ongoing cash crunch. The unorganized sector forms the bulk of the Indian economy and includes grocery stores, small traders and merchants, sweetmeat sellers, artisans and potters etc. Another target of digital payments companies is rural India – home to 870 million people – where online penetration is gradually progressing. A recent report by the Boston Consulting Group titled “Rising Connected Consumer in Rural India” predicts that rural users will increase from about 120 million in 2015 to almost 315 million in 2020, presenting enticing opportunities for marketers and digital wallet firms.

Various brands are not only supporting PM Modi's vision of a **Digital India**, but also devising mechanisms to help contribute in achieving the same. For instance, Vodafone recently introduced a unique cash out facility where over 8.4 million of their M-Pesa customers could withdraw cash from over 1,20,000 M-Pesa outlets by using their digital wallet. 56% of these outlets have been located in Rural India.

Further, the digital and paperless Airtel Payments Bank announced that it opened savings accounts for over 10,000 customers within two days of going live with a pilot project in Rajasthan, last week.

The Retail Sector has taken an initial beating but is definitely hoping for a swift resurgence with the growing flexibility shown by their customers in making digital payments. The transition for big retailers to adopt the digital path is not going to take much. The problem lies with the small retailers. But, we also have been surprised at the keen **adoption of digital payment** by a handful of local fast-food vendors in almost every city in the country. Small Retailers can definitely take a leaf out of their book.

III. IMPACT ON E-COMMERCE/ONLINE RETAIL

The total share of Cash on Delivery in e-commerce sales used to be 80% of all the transactions before demonetization. But the recent government push towards a cashless economy will persuade more

online payments and reduce the share of COD. This should help e-commerce companies including Amazon to reduce overhead costs and other risks associated with the COD model. During the 8th-13th November week, the cash on delivery (CoD) volumes were down by 60% than usual. Flipkart claims that they experienced a dip in sales by 25-30% after the announcement. About 70% of online shoppers in India, including those on Amazon's platform, opt for cash while buying a product. Cash payments are more frequent for high value products where the unaccounted "black" money is spent on luxuries. According to Forrester Research, the cash crunch will bring the cash on delivery share of e-commerce sales down significantly and increase the online payments.

Generally, the leading e-commerce companies register returns of about 13-15%, but have doubled up ever since demonetization took effect, with most cancellations arising out of cash on delivery orders due to the growing reluctance of customers to give out cash. While online grocery companies have seen a surge in revenues with the demonetization move, as consumers look to buy essential commodities through digital payments, gross merchandize value of other high value commodities is likely to be impacted negatively.

However, in a region where a small section of the population owns credit or debit cards (12% according to a 2014 report), a shift towards a digital payments will be difficult and can impact revenues significantly in the short term.

The following are the effects of demonetization:

A. The Rise and Fall of CoD (Cash-on-Delivery)

After the demonetization, Amazon, Flipkart and Snapdeal were affected significantly due to fall in the CoD sales. But this short term pain will result into long term gains. The inclination towards digital methods like debit/credit cards, wallets, and net banking will drive people towards these channels and lead to the growth of this method. It will also benefit e-commerce platforms by cutting handling costs and risks related to cash. In the coming years, as digital payment methods better penetrate, CoD will be as good as extinct – a change that is good for e-commerce companies as well as users.

B. Cashless Becomes the New Norm – Mobile Wallets Reign

After demonetisation, mobile wallets gained major grip. Popular mobile wallets such as Paytm, Freecharge, Mobikwik, and Citrus Pay enjoyed a manifold increase in users.

In the coming year, payment through mobile wallets will become the most preferred online shopping payment method. This is due to the fact that

wallet payments are snappy, safe and make for easy refunds.

C. Grocery and Consumables Go Online

Online grocery shopping was already gaining momentum when the cash crunch took effect. Post demonetization, shopping grocery online saw a massive growth as local vendors refused to accept demonetized notes and consumers were yet to get their hands on new ones.

Discounted prices, quick deliveries and good quality of these products will lead to changed consumer behaviour and loyal customers. Revenue is therefore set to increase by leaps and bounds.

D. Cashback and Coupons Take Charge

As Indian's we love a good bargain every time we shop. In fact, a large number of people turn to online shopping just for the discounts and deals provided to them through the medium. People are attracted to cash back and coupon sites, such as CashKaro.com, which add to their savings, especially during this cash crunch. Online shopping destinations that partner with affiliates offering cashback and coupon benefits will come to the forefront, providing dual benefits in the form of savings for users and increased sales for e-commerce websites.

All in all, demonetization may look it will spell doom in the short run, in the larger scheme of things, it will only result in better performance, increased sales and amplified revenues for e-commerce platforms.

E. Demonetization a Huge Boon for Digital Payments Market

Demonetization was great news for emerging digital payments market. In fact, among the reasons justifying the demonetization move, which was chiefly to weed out black money and destroy the parallel shadow market, is now a shift sought towards a cashless economy.

CFO – Paytm, Madhur Deora, said, "This is the biggest and most ambitious step ever to crack down on black money and fake currency. We stand by the government in its efforts towards taking black money out of the equation and offering a major boost to the Indian economy. Since Paytm is fast becoming synonymous to all kinds of payments, we are happy to announce we have registered a strong surge in volume on our platform."

Paytm users can pay virtually anyone who has a smartphone just by scanning their QR code or entering their mobile number in the Paytm app. Paytm Cash can be used to pay for local taxi/autos fares, paying at petrol pumps, grocery outlets, restaurants and coffee shops, multiplexes, local tea/vegetable vendors or

other service providers who prefer Paytm because of its seamless payment solutions.

The platform also allows users to do online recharges and bill payments, book movie tickets, do travel bookings and shop for products online among others. The safety and convenience of the process has triggered mass adoption across various categories, and has seen thousands of new users joining the cashless ecosystem within hours.

Digital payment companies and on-demand delivery firms, though, have benefited both from the cash shortage and the government's push towards cashless transactions.

While Prime Minister Narendra Modi's proclamation drove millions to the banks to exchange the invalidated notes, payments companies Paytm and Freecharge saw a surge in adoption of their digital wallets. For hyperlocal delivery companies, demonetisation has come as manna from heaven. The sector, which was collapsing as disenchanted investors began moving out, is flourishing again as customers strapped for paper money take to ordering daily essentials such as food and groceries through their platforms.

The on-demand delivery sector has emerged a clear winner, with grocery and food delivery firms seeing a surge in prepaid orders over cash payments on delivery.

"The number of new customers has shot up. Earlier, 15-16% of all monthly orders was by new customers. That has shot up to about 25%," said Hari Menon, CEO of BigBasket. For online food ordering platform Swiggy, demonetisation helped increase transactions as more customers opted to buy food online by paying electronically. "Previously as much as half of our users preferred CoD. After demonetisation, almost 50% of our users who ordered in during this period had never paid online before," said Srivats TS, vice president of marketing at Swiggy. Online restaurant booking and food ordering platform Zomato, too, reported an increase in transactions. "We have since seen a huge spike in our online order volumes, with a 200% increase in online payments," said a spokeswoman for Zomato. "The business as a whole continues to grow at a healthy 20% month on-month."

Some experts foresee the change in fortunes for on-demand delivery companies to be long-lasting. "Food and grocery are probably the only verticals in e-commerce that would have benefited from demonetisation. All other online discretionary spends with CoD has taken a hit," said Sreedhar Prasad, partner for e-commerce at KPMG. "The move has also seen a large number of first-time customers moving to buy grocery online. The impact is more due

to the ease of using online payments for the 'already online' shopper."

Up until this campaign, India was an incredibly cash-centric economy. Cash accounted for upwards of 95% of all transactions, 90% of vendors didn't have card readers or the means of accepting electronic payments, 85% of workers were paid in cash, and almost half of the population didn't even have bank accounts. Even Uber in India accepted cash — the only country in the world where this option is available — and "Cash on Delivery" was the preferred choice of 70% of all online shoppers.

By temporarily turning off the engines which drove the cash economy, India hoped that more people could be brought into the fold by using track-able — and taxable — digital financing vehicles, like debit cards and e-wallets.

The lack of cash in the economy combined with the buzz around electronic payments systems has also sparked some very innovative solutions. The farmers' markets of Telangana began experimenting with their own electronic payment system where customers with Aadhar-linked bank accounts could buy vegetables using tokens which could be purchased via debit cards at specialized kiosks.

"These changes indicate towards a more inclusive society in the future," Saxena said. He then outlined several areas in which India is trying to improve its digital economy, which include simpler, more technologically advanced digital payment systems, increased merchant acceptance, improvements in UPI, which allows monetary transfers between any two bank accounts via a smartphone, as well as a reduction in cash-based transactions.

"The Prime Minister's move to incentivize digital payments will offer a strong support to our ongoing efforts in helping the country leapfrog the cash generation to digital payment solutions," added Deepak Abbot, the senior vice president of Paytm. "This will not only help millions of Indians overcome the hassles of dealing in cash but also act as a significant step towards propelling India to emerge as a truly cashless economy."

At least two places in India have [already gone completely cashless](#). Auroville — a European-influenced, intentionally developed "hippie" town in Tamil Nadu — and the 1,200 person village of Akodara in Gujarat have already eradicated cash in exchange for electronic payment systems.

IV. CONCLUSION

Cashless is now the big buzzword in India, and the ball is undulating as the world's largest cash economy begins going digital. But no doubt for e-retailers, it's going to be a great news as it helped in reducing their Cash on delivery sales which are replaced by immediate online payments. For retailers without

adopting new ways of payment, they cannot survive in the economy whether they are organized or unorganized retailers. Hence demonetization proved to be a boost for service providers like Paytm, BHIM etc.

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