

2-D EFFECT IN INDIAN ECONOMY

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Abstract:

While the world reeled from the shock result of the US Presidential Elections, on November 9th, 2016, a nation of a billion of people faced an even bigger surprise. The Prime Minister of India, Narendra Modi, dropped a bombshell, declaring that all existing currency notes of 500 and 1000 rupees would be demonetised, with immediate effect. PM Modi pointed out that the objectives behind such a drastic measure were to combat corruption, to curb terror financing and discourage tax evasion on undeclared income, which is also known as “black money”. Since November 8, every Indian is in the dilemma of choosing a secure and convenient cashless payment option. The cashless payment options that are currently available include credit/debit cards, e-wallets such as Paytm, Mobikwik, SBle-wallet, etc., RTGS, NEFTetc. This unpredictable action taken

by the Prime Minister Narendra Modi has not only impacted e-commerce but at the same time has an impact on the consumers and their shopping behaviour through online shopping. Demonetization is a generations’ memorable experience and is going to be one of the economic events of our time. Its impact is felt by every Indian citizen. Since November 8, every Indian has only one thing on mind: the dilemma of choosing a safe, secure, convenient and cashless payment option. Currently available cashless payment systems include credit/debit cards, e-wallets such as Paytm, Unified Payment Interface (UPI), IMPS, USSD, RTGS, and NEFT. The main focus of the study is to understand and analyze the effect of demonetization on consumer’s frequency of buying product and consumer’s mode of payment for online shopping post demonetization.

Keywords: *Demonetisation, Digitisation, E-Payment, UPI, E-Wallet, Money*

Introduction:

In the context of Indian Economy, presently, Demonetization means that Reserve Bank of India has withdrawn the old 500 rupees and 1000 rupees notes from use and circulation as an official mode of payment. Technically, Demonetization is the act in which the currency unit is stripped of its status as legal tender. It occurs whenever there is a change of national currency. The current form of money is pulled from circulation in the market and retired which will be further replaced with new notes or coins.

It is interesting to note that no American or European nation has ever conducted a demonetisation operation of this scale. What is even more peculiar is that no country in the world, except for India, has gone for partial demonetisation, where only select currency notes and coins are demonetised. In 2016, with little warning, India's Prime Minister Narendra Modi announced to

demonetize the 500- and 1000- rupee notes, the two biggest denominations in its currency system. These notes accounted for 86% of the country's circulating cash and 68% of all transactions in the country are cash-based. The citizens of India had until the end of the year to deposit or exchange them for newly introduced 2000 rupee and 500 rupee notes. Although the same measure was adopted by a previous government under PM Morarji Desai in 1978, the scale was minuscule compared to the one being carried out now.

This policy was initiated:

- To discourage tax evasion on undeclared income
- To curb terror financing
- To promote a cashless economy
- To reduce Inflation
- To eliminate the circulation of fake currency from the country
- To facilitate trade
- To eradicate the habit of money laundering

Individuals and entities with huge sums of black money were forced to take their large-denomination notes to

a bank, which was by law required to acquire tax information on them. If the owner could not provide proof of making any tax payments on the cash, a penalty of 200% of the owed amount was imposed. But it has been taken care by Government that the public that a person who changed his higher value cash will get exactly the equal amount in lower denominations.

The demonetisation follows a tax amnesty scheme called the Income Declaration Scheme which was concluded on September 30th, 2016, as the final deadline for people to declare their assets and pay tax on the same. PM Modi had promised strict action against tax evaders after the end of a successful 2014 general elections campaign, and this is being viewed as the first significant move towards the same.

The 2-D's (Digitisation and Demonetisation) Impact

Demonetization has pushed millions of new users onto the country's digital economic grid by virtual fiat. The move is largely seen as an impetus to PM Modi's ambitious project "Digital India" which seeks to integrate a

digital infrastructure into the present system. One of the goals of this project is to largely eliminate cash-based transactions by encouraging digital payment systems. The Reserve Bank of India has thrown its full weight behind a cashless economy by creating a new digital payment interface called Unified Payments Interface.

From the ancient time, money has played an important role in our lives. The way money is perceived has changed from time to time-From barter economy to currency, and now currency has changed from physical notes to plastic money to digital, but most important its role is irreplaceable. The convenience of less cash has been well utilized by technology and today, that is what is driving us to adopt digital payments. The recent currency demonetization announcement has fuelled many mobile wallet companies to drive Indian to adopt digital payments and thus accelerate away from cash and other alternatives. The consumers want friction free movement of money. Since November 8, every Indian wants a safe, secure, convenient and cashless payment option. Currently available cashless

payment systems include credit/debit cards, e-wallets such as Paytm, Unified Payment Interface (UPI), IMPS, USSD, RTGS, and NEFT. The launch of BHIM on Android phones will take the cashless economy to small towns, especially once Aadhaar-enabled money transfers are made possible without the use of even a phone. The vegetable vendors on the streets have made up Paytm wallet account and they have swiping machine in their shop where someone can scan the bar code and make the payment. Modi's demonetization initiative has been a boon for India's e-payment providers. Paytm reported a three-time surge in new users -- tacking on over 14 million new accounts in November alone. While Oxygen Wallet's daily average users increased by 167% since demonetization began. We have suddenly seen a spike in both app downloads & merchant registrations. This spike is now coming from all cities, big and small, panIndia, consisting of small merchants like vegetable vendors, Kirana shopkeepers [small convenience stores], street vendors, rickshaw drivers, taxi's etc., who've signed onto Oxygen Wallet app for the merchant payments service.

Digitization and cash lessness will clearly increase the banked population in the economy, and along with that it will lead to higher banking transaction intensity and revival of dormant bank accounts in the existing banked population.









Digital technologies are touching and transforming all aspects of the insurance industry too including backend operations , all of which translates into offerings for the customer that are relevant, simple and convenient.. Customers can be better informed and can evaluate before taking a decision. A customer no longer has to depend on the financial advisor or visit a branch. With the introduction of mobile wallets and banking apps, it has become exceptionally easy for people to make cashless transactions, replacing cash at most places. Any transaction made using a digital medium leaves a digital footprint, means the data providing opportunities for a smart marketer to personalize and make relevant offerings.

The basic idea of e-commerce meant more benefits for the people in the form of less work, that too from home

with digitization allowing them to work on their computer. The impact of digital innovation has become more obvious in the last few years with ecommerce sales seeing a major boost. Every business from an online clothing store to a software provider to a physical store needs to be technologically upgraded. The digital world has and will continue to change social trends, which in turn directly affects consumer behaviour and demands. Customers are no longer

comparing brands with their direct competitors, but rather all brands they consume, no matter the industry or product. It has become easy for the customers to complain about bad service, means now it's much harder for brands to satisfy customers' wants and needs. Customers place a large emphasis on the ease of service, and if this is not met they will take to digital media to complain and let others know of their misfortunes.

Impact of Demonetisation on E-Commerce Industry

Impact of currency demonetization on transaction volumes		
Consumer Internet Sector	% Impact in Nov'16*	Takeaways
 E-Tailing	 15-20%	<ul style="list-style-type: none"> E-tailers' transactions saw a sharp decline within days of demonetization Although, there has been an increase of ~15-20% cashless transactions which is a boon for the sector
 Online Cabs	 3-5%	<ul style="list-style-type: none"> Decline in this sector is seen due to lack of customer confidence in wallets of few players However, on the positive side Taxi has seen ~25% increase in their online payments since 9th November which bodes well for the future
 Food Tech	 10-15%	<ul style="list-style-type: none"> Food-tech has seen a significant increase in their online payments, with some experiencing ~90% increase Players have introduced cashback and Pay Later offers that influenced more customers to go online
 Hyperlocal Grocery	 30-40%	<ul style="list-style-type: none"> Hyperlocal saw a sharp increase pushing companies to hire more staff Players are expecting much higher volumes over the next 2-3 months; with more customers switching to online payments than CoD

Growth of E-Commerce after Demonetisation

Though demonetisation brought with it a sudden decline in e-commerce transactions, the first quarter of 2017 has brought some positive changes. Demonetisation aims at pushing consumers towards making digital payments, thereby contributing to a cashless economy.

NITI Aayog published a report on the growth of digital payments in India post-demonetisation. According to this report, digital payments have seen a whopping surge of 271 per cent in the very first month following demonetisation. The number of mobile wallet transactions has increased to 63 lakhs from 17 lakhs. Paytm, one among the biggest players in the mobile wallet space revealed that it served 45 million customers within 3 weeks after demonetisation. Transactions via RuPay cards have also increased suggesting that more JanDhan account holders have started using debit cards for online transactions. “We saw an initial decline in transactions for the 1st 10 days of demonetisation; however the transactions started getting back to normal from 1st week of December. As of February, we see a steady increase in transactions as well as online payments” as mentioned by Vikash Khetan, Founder Of CouponzGuru (A coupons and deals aggregator in India)

Changes in E-Commerce Segments

One of the long term benefits for the e-commerce industry is reduction in payments via COD. For online retailers COD involves additional cost and the risk of returns or thefts is higher in this form of payment. Here is how demonetisation has affected the 4 main segments of the e-commerce industry.

- **Online Retail**

Online retailers like Amazon and Snapdeal welcomed the Government’s move on demonetisation but they have also had to deal with a slump in business. There has been a 30 per cent-40 per cent reduction in COD orders. The final quarter of 2016 was definitely not as fruitful as in the previous years for giants in the e-commerce industry. The consumer is not in a mood to spend and this situation is expected to continue till the end of the first quarter in 2017. Most of the online retail stores continue to be dependent on cash payments as it is going to take some time for all customers to switch to digital payments.

- **Payments**

The digital wallet and payment segments have emerged clear winners post demonetisation. Local vegetable shops and paani puri vendors have been showcased on social media for displaying signs asking for digital payments. Payment gateways have already seen an 80 per cent growth and the number is increasing each week. There is a growth in low-value transactions too.

- **Logistics**

E-commerce based logistic firms have taken a hit as 20 per cent of COD orders were cancelled post the demonetisation announcement. In the transport industry, most of the transactions are done through cash and this is expected to take more than a quarter to normalise. Sahil Barua, CEO of e-commerce focused logistics firm Delhivery stated that the firm has started accepting card payments and other modes of payment like wallets on delivery. There are some other logistics firms that do not offer card payments and will require some time to scale up their operations.

- **Hyper-local Delivery**

This sector in the e-commerce industry has seen tremendous growth post demonetisation. Hyper-local delivery firms supply groceries, household items and food from restaurants to customers. The number of new customers that this segment receives is increasing by the day and there is a surge in pre-paid orders. Online food-ordering platforms like Swiggy and Zomato have seen a rise in transactions.

- **Reduction in Cash On Delivery – Short Term Pain But Long Term Gain**

COD is considered as a necessary evil in the Indian e-commerce market. While it boosts sales of online companies, it obstructs their cash flows and makes it difficult to scale operations. There are several additional costs involved with this payment method and the risk of returns and thefts with this form of payment are higher. The recent government push towards a cashless economy will encourage more online payments and reduce the total share of COD in e-commerce sales from the current high of nearly 80% of total transactions.

Conclusion:

Together with a fast-paced growing economy and a rather large young population group, the economy seems very promising and it looks like we are in a transition period from traditional shopping to digital shopping. Retailers who adapt the best will likely have the better edge in the next few years. This trend is partially confirmed by the survey as 75% of the respondents already uses online shopping regularly. Regarding the demonetization in India that took place in November 2016, most of the respondents seems welcoming this policy. As for the impact on the E-commerce industry, the demonetization helped to increase the popularity of it even more. The goal of the demonetization move in India is

to make the economy stronger and eliminate the parallel cash economy which is unaccounted and untaxed. While this can impact the GDP negatively in the short term, it should have positive long term consequences. For e-commerce companies such as Amazon which already have a digital payments system in place, it should lead to higher online payment and eventually eliminate the painful cash on delivery option. India is a strong growth market for online websites and the companies are investing a huge amount in the country. Demonetization though has created some positive and some negative impacts on different sectors but in long run it definitely will have positive impact in controlling black money and fake money. Digitization and cash lessness will clearly increase the banked population in the economy, and along with that it will lead to higher banking transaction intensity and revival of dormant bank accounts in the existing banked population.

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