

Impact of Demonetisation in India- A Study of Indian Customer Inclination towards Digital Transactions

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Abstract

After the historic announcement of demonitisation on 8th November 2016, Indian citizens have been observing a change from being a cash economy to cashless economy. The primary objective behind this announcement was to curb black money and also to make citizens of India aware about the benefits of digitized economy. Government of India has started various lucrative schemes to motivate a person to use online banking and to make payments through mobile payment apps, credit card, debit card etc. Also RBI has taken important steps to discourage the customer to withdraw money from teller counter. This paper is based upon the secondary data collected from newspapers, magazines, Internet and is an attempt to know about Indian citizen comfort level with online transactions.

Index terms: Payment apps, Digital Transactions, Assurance

Introduction

India is the world's seventh largest country in terms of scale and 2nd largest in terms of population after China. The official figure of Indian population is 125 Cr and unofficially it is touching 135 Cr. India is facing a problem of income disparity where 1% of people are holding 60% of wealth in India. Most of the people are poor, illiterate and don't even know the basics of bank or banking services. After getting Independence 70 years back, emphasis is still on the importance of Financial Inclusion. Most part of Indian society is still going to see the light of financial services.

In order to achieve this objective, Prime minister of India started the Pradhan Mantri Jan Dhan Yojana where the banks were told to open the zero balance saving accounts for poor people.

A zero balance is an account where there is no restriction to maintain minimum or average balance. A large level campaign was started and every public and private sector banks were asked to open zero balance saving accounts. The positive outcome of this step was that people started getting online LPG subsidy in their saving account. A very simple documentation process was adopted while opening accounts. Here at this point of time no one knows the main purpose behind this step.

On 8th November, Prime Minister Sh. Narinder D Modi announced demonetisation of Rs 500/- and Rs 1000/- notes. These notes were widely circulated and were covering almost 85% of the total money circulation in India.

Keeping in mind the demographic features of Indian society, this step was a big move towards eliminating black money. Series of precautionary steps were adopted by Government to deposit the old currency in the accounts. RBI also started issuing Rs 2000/- and Rs 500/- new currency notes. After one month of this announcement, saving account holders were still facing the problem of huge cash crunch. People were neither getting their money from banks nor ATM's.

Keeping in mind all these problems, Government of India started a new campaign of becoming the cashless society. Government started motivating & educating the people to adopt digital banking and asked people to make online payments and use Internet banking. In order to achieve this objective many companies operating in India came ahead and offered their services. One of the campaigns started by them was called "Cash Mukh India". Six big BPO companies and two telecom majors were running a GoI helpline called Cash Mukh Bharat Abhyan (CMBA) and the best part is that they were not charging anything for the same. This helpline was getting 3 Lac calls everyday and its second aim was to help user understand the benefits of making digital payment. Also this center was handling the grievances of the users. The companies involved in this process were TCS, Tech Mahindra, Genpact etc. Vodafone and Tata teleservices were the telecom majors who were supplying phonenumber capacity for the helpline. Deloitte was helping to manage the entire services. These services ended on 31st March 2017.

In order to motivate the citizens of India to go for digital payments, Govt of India started Lucky Gharak yojna. The main motive behind this scheme is to award a person for using cashless means of payment. As per this scheme, lucky draw on daily, weekly and monthly basis was conducted to find out the winner. The winners were selected randomly via transaction ID. Only four kinds of valid digital payment modes were considered under this scheme i.e. UPI (Unified Payment Interface), USSD (Phone based payment system using *99#, AEPS (Aadhar enabled payment system) & Rupay debit card.

So with this a simple saving account holder who was not using online banking earlier also reluctantly started using internet banking/ mobile banking. Customers started getting SMS from their Banks to use digital wallets, Debit Card, Credit Card. Demonitisation drive also saw point of sale machine moving north to 200 times. Usage of credit card climbed 25% and debit cards was more than double of that.

After successful launching of BHIM app, Government of India is now setting up Aadhaar pay, a digital payment platform for merchants. Aadhaar pay will help shopkeepers to receive payment via digital mode from customers after doing the Aadhaar authentication.

This modern technology is being developed in such a manner that an Indian consumer may not need any device to make payment.

All they are going to do is to link the Aadhaar card with saving account and while making payment at the merchant, just place the thumb impression and the payment will be directly debited from the saving account. On the other hand the merchant need to have a smartphone and has to download Aadhaar pay app and will accept the payment by sending pull notification to the customer bank account. This move is aimed at getting people who are not comfortable using cards or mobile wallets.

Outcome of the Study

India mobile subscriber base is huge with more than 70 crore are using mobile phones and out of this nearly 30 crore are using smart phones, thanks to the Chinese brands like Xiomie, Vivo etc.

Keeping in mind these facts a study was conducted by Ipsos Research where a sample size of 1000 users was collected. The outcome was astonishing as most users having mid size smartphones or above are preferring digital mode of payment and are giving preference to debit card and mobile wallets for making payments. Following table is showing more detail of this study:-

Table 1

Mode of Payment	% of Users
Debit/Credit card	45
Mobile wallets	31
Cash preference	9
Net Banking (For Transaction of more than Rs 10,000/-)	49% prefer debit/credit card & 29% prefer Internet Banking

As per the above mentioned table, In India, 45% of the sample size is using debit/credit card for making online payments.

Because of the easy availability of payment applications from Google Play store like Paytm, Freecharge, Mobikwik

etc, 31% of the users are preferring mobile wallets for making payments. There are still 9% of the people who prefer cash as the best mode of making the payments.

Talking about the contribution by Net Banking (as most of the banks in India are providing this facility free of cost), for

making payments of more than Rs 10,000/, 29% prefer Net banking and 49% prefer plastic money for making online payments. Talking more about this study, customers cited the convenience and security as the major reason for using plastic money but 58% complaints that all the vendors do not accept credit/debit card as they may not be having the card swipe machine. 57% cited not to use debit/credit cards as they may incur additional charges.

Talking more about this study, one of the serious outcomes was that 94% of the customers will still use cash as one of the convenient payment mode if the cash is easily available from ATMs.

In the case of mobile wallets, 79% mentioned cashbacks/discounts/offers as the major reason for making payments but 54% complaint about poor internet connectivity as the main hindrance in making online

payments. Secondly, 50% still fear not to use mobile wallets as if their phone is stolen, someone may do unauthorized transaction.

Keeping in mind these kinds of difficulties, Government of India launched a unique application called BHIM i.e. Bharat Interface for Money and started payments via Unstructured supplementary service Data (USSD) which can work even on a simple mobile phone.

About the security perception, 29% consider fingerprint scanning as the most authenticated way to secure the online transaction. In terms of security rating, 71% feel fingerprint scan to be extremely secure, 61% feel encryption to be extremely secure and 60% feel changing passwords frequently to be most secure.

Following is the detail explanation of the various Digital Payment Options available to Indian Citizens:-

Table 2

M Wallets	Payments are made through mobile wallets and also provide cash back to the user	40 entities have Mobile wallet license and 25 are operational (SBI Buddy, HDFC Payzapp, ICICI Pockets, Paytm, Mobikwik, Freecharge etc.)
NEFT & RTGS	National Electronic Fund Transfer, Real Time Gross Settlement	It helps C2C, B2B, C2B to transfer funds online but are operated only in banking hours.
IMPS	Immediate Payment Service	This service is available 24x7x365 days to help immediate transfer of funds with some extra charges.
Plastic Money	Debit Card, Credit Card, Prepaid Card	In India 750 million cards are in circulation and less than 400 million cards are used, 250-300 million debit cards used mainly at ATMs to withdraw cash. 27 Million credit cards are currently in use
Mobile Banking	Access and operate your bank account via the bank apps or browser.	Facility is provided by most of the banks like HDFC Bank, ICICI Bank, Axis Bank, Yes Bank etc
UPI	Unified payment Interface	This facility interconnect banks to help fund transfer. Both the money sender and receiver need a UPI identity. At least 30 banks are offering this service.
AEPS	Aadhaar enabled payment system	It complete payment using biometric authentication
BHIM	Bharat Interface for Money	UPI based service to enable money transfer using just a mobile number
USSD	Unstructured supplementary service Data	GSM based system to help money transfer for feature phone users

Customer Inclination towards digital payments after demonitisation

After 3 months of demonitisation, data released by RBI reflected a decline in the value of digital transactions from 94 lakh crore in November 2016 to 92 lakh crore in February

2017. This data did not cover all the transactions of a bank but include card payments (of four banks), mobile banking figures (of five banks) and prepaid instruments (like Paytm, Freecharge etc) for eight non banking issuers. More data showing decrease or increase of digital transactions is as follows:-

Table 3

Category	Date	Mode of transaction	Value
Number of transactions (In million)	16-Nov	Debit & Credit Cards at Point of Sale	205.5
	16-Dec		311
	17-Jan		265.5
	17-Feb		212.3
Value of transactions (In Rs '000 crore)	16-Nov		35.24
	16-Dec		52.22
	17-Jan		48.12
	17-Feb		39.15

Above mentioned data clearly show a decline in the number of transactions as well as in the value of transactions. This data is showing an increasing trend till December/January and then its declining.

Table 4

Category	Date	Mode of transaction	Value
Number of transactions (In million)	16-Nov	Immediate Payment Transfer	36.2
	16-Dec		52.4
	17-Jan		62.3
	17-Feb		59.5
Value of transactions (In Rs '000 crore)	16-Nov		32.6
	16-Dec		43.4
	17-Jan		49.7
	17-Feb		48.6

In the case of Immediate payment services, again the data is decreasing. showing upward trend till January 2017 and then it start

Table 5

Category	Date	Mode of transaction	Value
Number of transactions (In million)	16-Nov	NEFT	123
	16-Dec		166
	17-Jan		164
	17-Feb		148
Value of transactions (In Rs '000 crore)	16-Nov		880
	16-Dec		1153
	17-Jan		1135
	17-Feb		1087

In the case of National Electronic Fund transfer, data starts decreasing from January 2017 in both the cases i.e. in the case of number of transactions as well as in the case of value of transactions.

Table 6

Category	Date	Mode of transaction	Value
Number of transactions (In million)	16-Nov	Pre-paid Instruments	59
	16-Dec		87.8
	17-Jan		87.3
	17-Feb		78.4
Value of transactions (In Rs '000 crore)	16-Nov		1.3
	16-Dec		2.1
	17-Jan		2.1
	17-Feb		1.8

The same picture of declining is reflecting in the case of prepaid instruments.

Table 7

Category	Date	Mode of transaction	Value
Number of transactions (In million)	16-Nov	Unified Payment Interface	0.3
	16-Dec		2
	17-Jan		4.2
	17-Feb		4.2
Value of transactions (In Rs '000 crore)	16-Nov		0.09
	16-Dec		0.7
	17-Jan		1.66
	17-Feb		1.9

UPI is an online payment solution which will transfer the funds instantly between person to person using smartphone. Talking about this, we can see a positive growth in payments through UPI specially after demonitisation.

After doing the careful analysis of all the tables, it clearly shows the downward payment trend in most of the digital payments modes.

Summary

Indian economy faced the first demonitisation phase in the year 1946, in the year 1978 and then in the year 2016. The common objective was to curb black money, finish the concept of parallel economy and making a full proof transparent system. Citizens of India coordinated with the Government of India in the last four months and most of them have provided a positive feedback regarding this major decision. Government of India is trying its best to push the citizens of India towards cashless or digitized economy. Also RBI has directed banks to conduct various seminars to educate the customer regarding usage of digital payments. But the latest data as we have discussed earlier may create a hindrance in the way of India to become a cashless economy.

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