



DEMONETIZATION IMPACT ON DIGITAL PAYMENTS IN INDIA

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Abstract

This paper takes a gander at the effect that Demonetization has had on the different instalment strategies in India. In particular, it means to perceive how the different computerized stages have advanced with the approach of demonetization. These instalment entrances help to make instalments progressively advantageous and simple to utilize. One doesn't need to go to the bank to do fiscal exchanges. Demonetization has opened numerous advances in the computerized instalment framework in India. Individuals are presently ending up less fearful of innovation, and are getting to be alright with the advanced world with passing day.

Key Words: *Demonitization, Digital Payments*

Introduction

More Indians from littler towns and urban communities are paying carefully for products and ventures, raising desires for continued development for non-money instalments, even as Reserve Bank information shows the sharp spike in advanced exchanges following the 2016 note boycott has leveled out this year.

Instalments organization administrators gauge that card exchanges in towns with populaces of up to 1 million have multiplied in the long time since demonetisation.

"Crosswise over urban communities like Udaipur, Aligarh and Hubli, shippers are available to receiving QR code for instalments and they are stage rationalist," said Amrish Rau, CEO of PayU India. "This was never the situation in my two many years of involvement in the instalments business." Immediately after demonetisation was reported on November 8, 2016, there was a spurt in advanced instalments.

Small-Ticket Spends

Charge card exchanges at purpose of-offer terminals flooded, becoming 105% in FY17, as indicated by information from RBI. Until August this year, charge card swipes had developed 37.5% over a year ago, indicating decreased development. In any case, industry officials revealed to ET that level II and III urban areas are seeing an ascent in exchanges even as the top metros show indications of immersion.

Since these are little ticket spends and the base is low it probably won't reflect significantly in the RBI information, which gives to a greater extent a large scale point of view," said Rajeev



Agrawal, CEO of Innoviti Payment Solutions, which works with banks to locally available traders for card instalments.

"There is a general increment in use of cards for littler esteem exchanges, which is a reasonable sign of the way that it is eating into money instalments," he said. Industry specialists said that while check card exchanges might moderate, more individuals are utilizing more up to date methods of advanced instalments for day by day buys.

"Adoption of debit cards shot up just after demonetisation as people had run out of choices and wallets did not (yet) have (as much) merchant acceptance like banks.

"As merchants started accepting wallets like Paytm or PhonePe for digital transactions, the trend has shifted and a lot of small-value retail payments could have moved away from cards," he said. A 37% jump in card transactions this year following an over-100% increase in 2017 is still "pretty impressive".

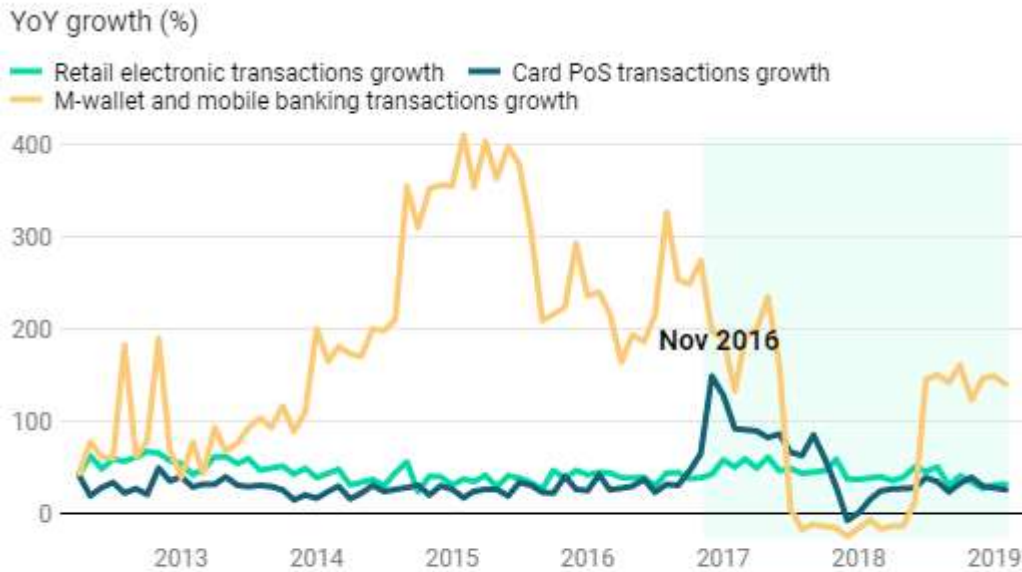
UPI AIDED DIGITAL SURGE

The move to computerized instalments has likewise been supported by the quick extension of the Unified Payments Interface (UPI). National Payments Corporation of India (NPCI), which deals with the stage, has recorded 482 million UPI exchanges in October 2018 as against 0.2 million in November 2016.

In November 2017, there were 105 million UPI-based exchanges. "What demonetisation has accomplished for computerized instalments is more than what some other activity could accomplish previously," said PayU's Rau, indicating the developing mindfulness among business people who are making working models with advanced instalments as the foundation.

Fintech business people are, in any case, worried over later administrative strictures, including the restriction on privately owned businesses getting to client information from the Aadhaar stage. "We have the innovation, we have the plan, however the strategy fixing around compulsory KYC (know your client) standards, restriction from access to Aadhaar, (and) complete localisation of information inside a half year have influenced our organizations," said the organizer of a huge computerized instalments startup.

Digital payments spiked in the immediate aftermath of demonetization but have normalized since



Retail electronic transactions include NEFT, IMPS and UPI payments

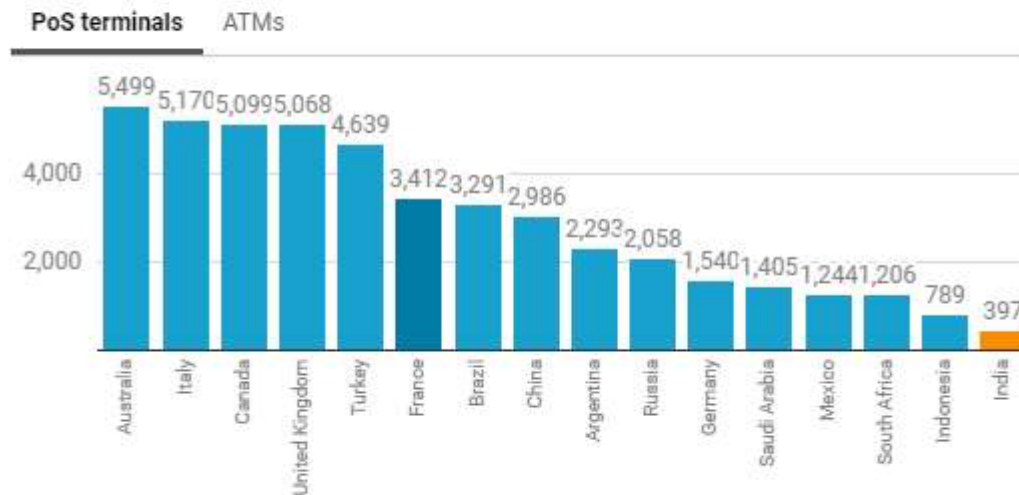
Source: Reserve Bank of India • [Get the data](#) • Created with [Datawrapper](#)

The general use of advanced methods of instalment rose 10 rate indicates somewhere in the range of 2014 and 2017 29%, as per information from the World Bank's Findex database. However, this is considerably less than the normal use of computerized instalments over the 10 biggest developing markets, which stands at somewhat above half. The Findex database depends on a worldwide study of 150,000 individuals crosswise over 144 economies of age 15 years and more seasoned. In India, 3,000 individuals were reviewed among April and June 2017 for the last round.

None of the enormous economies, which outperform India in computerized instalments, needed to experience the difficult experience of demonetization to help cashless exchanges. What they experienced, however, was a deliberate lift to the foundation for advanced installments. As far as computerized framework, India saw a sharp increment in purpose of-offer (PoS terminals) and the quantity of charge cards post-demonetization (bit.ly/2VKosdD). In any case, the most recent information from the Bank for International Settlements demonstrates that starting at 2017, India saw a sharp increment in purpose of-offer (PoS) terminals and computerized teller machines (ATMs) among G-20 economies (in the above figure).

Adjusted for population, India has the lowest number of PoS terminals and ATMs among G-20 countries

ATMs and PoS terminals per 100,000 adults (2017)



Only those countries included for which 2017 data is available. United States, South Korea and Japan excluded

Source: BIS, World Bank World Development Indicators • [Get the data](#) • Created with [Datawrapper](#)

Research suggests that a denser and reliable ATM network reduces people's tendency to withdraw cash in large amounts, which helps boost cashless payments. More PoS terminals can also help.

The shift to a cashless economy needs to be supported not just by the digital payments infrastructure, but also general awareness and by addressing the apprehensions of people. A recent research paper from Jaipur showed how merchants fully equipped for digital payments struggled to shift to digital transactions because consumers continued to prefer cash, owing to concerns regarding tax liability. Demonetization may have forced people to temporarily use digital payments, but it does not seem to have led to attitudinal changes.

Finally, most countries that have greater use of cashless transactions are also richer than India (in terms of per capita income).

Economies that have reduced the use of cash have all adopted one of these methods: reliance on economic growth or a boost to digital infrastructure (along with technological innovations). No country on Earth has had to demonetize 86% of its currency in circulation to boost digital payments, as India did in 2016.

Another related guard of demonetization, set forward by the Economic Survey of the fund service, was that the power of demonetization would drag more Indians into the duty



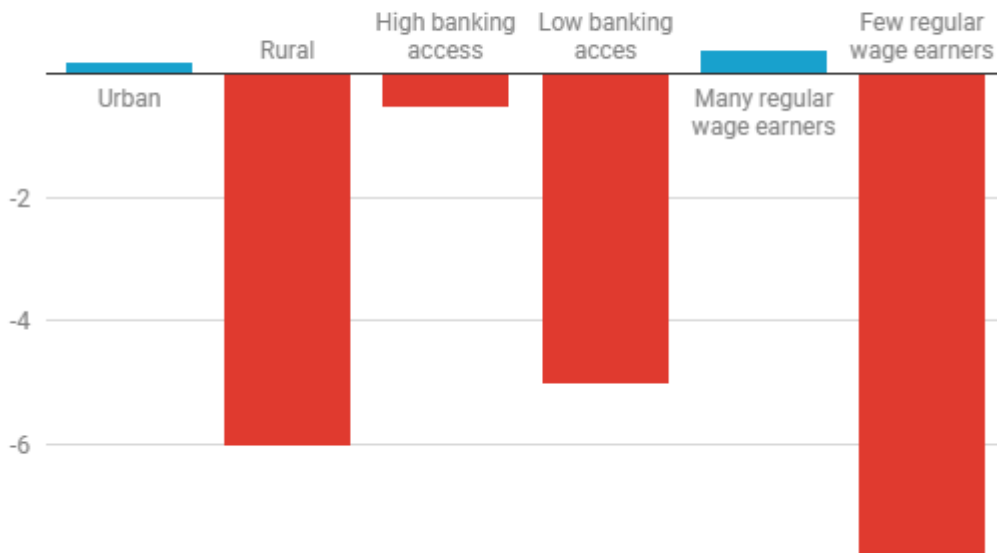
framework. Catching this impact on the assessment base is trickier to gauge. While India's assessment to-GDP proportion has expanded over the most recent few years, this expansion isn't uncommon, and could be an after effect of various variables.

It is altogether conceivable that demonetization was incompletely in charge of the lift in duty accumulations in the year following demonetization, as it prompted a brief spurt in individuals recording assessment forms out of the blue. Nonetheless, most recent information demonstrates that the development in the quantity of individuals recording government forms has not continued, with the quantity of individuals documenting returns contracting in 2018-19 contrasted with the year-back period.

The Indian Express announced that while demonetization may have prompted a spike in new citizens, it likewise prompted a memorable ascent in the quantity of individuals who quit recording charges, maybe as a result of loss of occupations or pay that year.

Demonetization may have neglected to achieve any of its expressed objectives, however it disrupted life and monetary action. The money crunch implied that GDP development fell quickly in the quarter of demonetization (Q3 2016-17) and the lull endured in resulting quarters. As per one paper by International Monetary Fund boss financial specialist Gita Gopinath and others, the subsequent accident crunch shaved 2 rate focuses off quarterly financial development. While official insights proposes that the development hit was just brief, Gopinath and others contended that official evaluations don't catch the casual economy and, subsequently, can be deceiving. A World Bank concentrate dependent on night light information demonstrates that regions with a higher extent of poor people and unbanked were hit more earnestly by demonetization (in the below figure).

Growth (yoy%) in quarterly GDP across different types of districts in the demonetization quarter (Q3 2016-17)



Source: [Measuring District's Monthly Economic Activity From Outer Space, World Bank](#) · [Get the data](#)
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Smaller scale, little and medium ventures (MSMEs) were hit the hardest as they keep running on money. The area which was at that point confronting a credit crunch saw a further decrease affecting yield and fare development, as per an exploration paper by financial specialists at RBI.

"Demonetisation prompted a further decrease in the previously decelerating credit development of the MSME part, while GST execution does not appear to have significantly affected generally speaking credit to MSMEs," said the paper. GST represents the products and ventures charge.

Country customer slant also endured a shot, with local offers of bikes diving pointedly in the months following demonetization. Vehicle deals likewise fell however the decay was less extreme than on account of bikes.

Despite the fact that a financial disappointment, demonetization was maybe a political example of overcoming adversity. Actually, post-survey studies by the Lokniti-Center for the Study of Developing Societies group in four states—Goa, Punjab, Uttarakhand and Uttar Pradesh—that went to surveys in the months following demonetization demonstrated that a larger part of voters bolstered the note restriction despite the fact that they experienced it.

Numerous voters may have felt that others, more wealthier than them, were additionally being harmed by demonetization, and thus bolstered the adventurist move.



The aftereffects of the second round of the YouGov-Mint Millennial Survey directed in mid 2019 propose that even today and, in spite of all the proof despite what might be expected, numerous urban young people who bolster the decision gathering believe demonetization to be great accomplishment of the administration.

That reality is as calming as the way that demonetization neglected to meet its targets.

Conclusion

Two years after note boycott, computerized exchanges show hearty development. Computerized instalments have expanded complex after demonetisation happened two years back. It might be reviewed that the administration had pulled back money notes of ₹500 and ₹1,000 on November 8, 2016, which made a money crunch that proceeded for over a year in various pieces of the nation. According to information accessible with the RBI and National Payments Corporation of India (NPCI), the expansion in advanced instalments has been significant in well known channels, for example, National Electronic Fund Transfer (NEFT) and versatile banking between September 2016 and September 2018.

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