

The Impact of Demonetization on online shopping

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Abstract:

This paper provides information about the impact of Demonetization on online shopping in India. The Government of India announced that the Rs 500 and Rs. 1000 denominated currency notes will cease to be legal tender. The move was targeted towards tackling black money, corruption and terrorism. After initial euphoria, questions began to emerge. What are the costs of this demonetization? Will it be effective if people can still create new black money thereafter? Will it increase the GDP? Will it increase inflation? Major E-commerce websites such as Amazon India, Snapdeal, and Flipkart have opted out the COD (cash-on-delivery) mode of payment options as the government demonetized the Rs 500 and Rs 1000 notes. When purchasing on the e-commerce sites, the users are advised to use their debit/credit cards or net banking to make a purchase of any goods.

Keywords: Black money, COD, Demonetization, E-commerce, GDP, etc.

Introduction

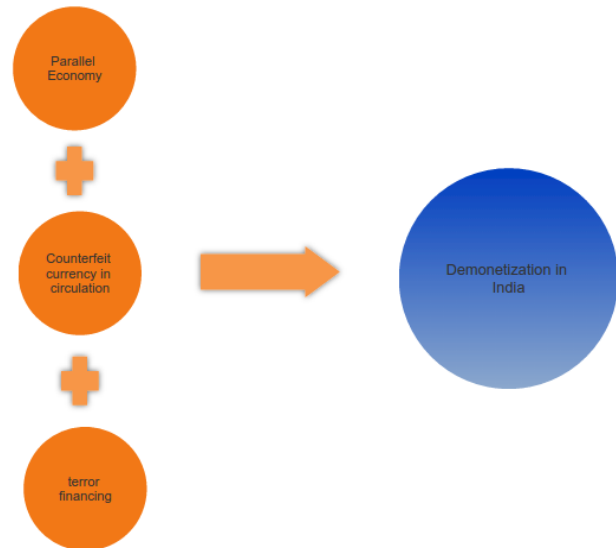
India is one of the Key growth countries when it comes to e-commerce but it is still at a nascent stage and has a huge potential for growth. The Indian Governments sudden and unprecedented move on November 8, 2016 to take high-value currency notes out of circulation sent the Indian economy in a tizzy. Post the demonetization announcement, CoD faced a major e-commerce platforms such as Amazon, Flipkart, Snapdeal etc. faced an onslaught as many of their shoppers canceled their orders immediately. Demonetization meant that Rs 1,000 are now no longer legal tender, eliminating nearly 86 per cent of the currency in circulation, creating a huge cash crunch in the economy. The effects of this move have been seen at an individual as well as industrial level. CashKaro.com – India's largest cashback & Coupons site did a survey recently to understand the "Effect of Demonetization on Online Shopping". Over 1000 people across

India participated in the survey. 85% of the respondents said they are in favour of the recent move and agreed that it would be instrumental in reducing black money and corruption in the

Indian ecosystem. While the unprecedented action by the Prime Minister Narendra Modi comes with both short-term and long-term implications for the e-commerce industry, but has there been an impact on the consumers and their shopping. Swait & Rohan Bhargava, founder of CashKaro.com commented, "We welcome Prime Minister Narendra Modi's bold decision to phase out the circulation of Rs. 500 and 1000 bank notes as this will bring transparency and stronger accountability. The move has definitely given a boost to digital payments and has encouraged people to shop online more. Wallet-like payments have seen significant growth. We have seen an increase in the number of people clicking through CashKaro and going to our partner sites to purchase daily essential and consumables. One of the main reasons for this increase is that the Cashback that members earn from CashKaro is paid over and above applied discount coupons, bank & Wallet offers.

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increase is that the Cashback that members earn from CashKaro is paid over and above applied discount coupons, bank & wallet offers. CashKaro Cashback is in the form of Real Cash and can be transferred to user's Bank Account. India's Prime Minister Narendra Modi has addressed the country and announced that the Rs 500 and Rs 1000 notes will no longer be a legal tender from midnight of November 8, 2016. The move was essential in order to fight the 'black money' issue in India. While the declaration is receiving a mixed response from citizens on social media, the tech industry has collectively welcomed the move. The ban on these denomination notes will move towards the cashless payment methods. This is a major step in line with the Digital India vision. Major E-commerce websites such as Amazon India, Snapdeal, and Flipkart have opted out the COD (cash-on-delivery) mode of payment options as the government demonetized the Rs 500 and Rs 1000 notes. When purchasing on the above-mentioned e-commerce sites, the users are advised to use their debit/credit cards or net banking to make a purchase of any goods. The step from e-commerce majors is taken considering that the users will require lower denominations to buy regular day-to-day provisions. The banks will remain closed on November 9 and the ATMs are already running dry, buyers will likely to decline the delivery to save the cash for essential payments. The rejection of COD payments will put the brunt to these e-commerce websites and their vendors. While so, the digital wallet and other electronic payment options might become the preferred payment method for online shopping in India. Paytm's Sharma tweeted few minutes after PM Modi's announcement, "The biggest, the boldest, and the most ambitious surgical strike by any government in the world. Hats off to our PM for removing ₹500/ 1000 notes." Paytm is one of the most popular digital wallets in India.



OBJECTIVE

- 1) Removing Black Money From Country: Modi Has Done A Really Good Work, As People Who Are Having Black Money Will Now Be Left With Nothing Particularly. All the Cash Which Resides Below the Pillow, Will Now Be Useless (Although Small Amount Of Black Money Can Be Converted Into White, But Amount In Hundreds Of Crore Of Rupees Is Almost Next To Impossible To Make It White)
- 2) Stopping Of Corruption: By Removing The Currency Notes From Circulation, It Will Have A Direct Impact On Corruption. People Who Have This Notes Will Now Be Left With Nothing.
- 3) Stopping Terror Funds: Because Of Demonetization, The People Or Organizations Who Used To Fund Terror Groups Will Be Now Sitting Without Any Works, They Will Naturally Die And That Too With Starvation.
- 4) Curbing Fake Notes: Demonetization Will Also Stop The Circulation Of Fake Notes In The Economy (Although The Amount Of Fake Notes Revolving In The Economy Was Around 400 Crores).

WHAT INDIA WITNESSED ON 8TH NOVEMBER 2016 WAS THE NOT THE FIRST TIME WE PLUGGED AND PLAY THE DEMONETIZATION GAME

1946: Rs1, 000, Rs5, 000, and Rs10, 000 notes were taken out of circulation in January 1946. The Rs10, 000 notes were the largest currency denomination ever printed by the Reserve Bank of India, introduced for the first time in 1938.

All three notes were reintroduced in 1954

1977: The Wanchoo committee (set up in 1970s), a direct tax inquiry committee, suggested demonetization as a measure to unearth and counter the spread of black money. However, the public nature of the recommendation sparked black money hoarders to act fast and rid themselves of high denominations before the government was able to clamp down on them!

The High Denomination Bank Notes (Demonetization) Act deemed the Rs 1,000, Rs 5,000 and Rs 10,000 notes illegal for the second time. At the time, then-RBI governor I.G. Patel disagreed with the measure.

ADVANTAGES

- The major decision which is made by the government will help us to eradicate black money, corruption to some extent.
- Due to lack of funding there will be no arms smuggling and all the terrorist activities will also be choked.
- The government has proposed the new limits on ATM withdrawals being restricted to Rs.2000 per day, withdrawal from bank account is Rs.10000 a day and Rs.20000 a week. It indicates that card transactions will slowly replace the cash transactions in our daily prone activities.
- Exchange of money in banks can only be done producing a valid identity card like PAN, aadhar card and electoral card from 10 to 24 November with a daily limit of Rs.4000. By doing so it will be easy for the government to track the money which is being exchanged in banks. There is no limit if the amount which we are exchanging is legal

amount.

- Financial Intelligence Unit will track all details of the transactions from the banks. So now it is really difficult to get rid of the black money.
- Real estate industry is totally corrupted and now by this stringent decision the real estate sector will bring in more transparency. By doing it in this way we will have more credibility, making it more attractive to the foreign investors as well as domestic investors.

Disadvantages

- It will cause great inconvenience to common man who will start running to bank to exchange Rs.500 and Rs.1000 notes.
- By replacing all the Rs.500 and Rs.1000 denomination notes, as ordered by the government, could cost the RBI at least Rs.12000 crore.
- It will be very difficult for half of the population who are not well versed with the card transactions.
- The major problem is that big fishes will be left out whose black money is in the form of foreign currency, gold and property and stashed in tax havens.

POSITIVE THAT COME OUT OF THIS ANNOUNCEMENT

ü Remember your economics basics? What happens when people go back and deposit their money. Deposits increase for the banks and that means eventually interest rates might come down.

ü Curb on black money – corruption, terrorism etc. (as discussed above) [Backgrounder on Black money].

ü Boost to cashless economy with people adopting habits of wallets etc. [Read about Payment Banks here].

ü Boost to Jan Dhan Account's relevance for

poor people – Would be interesting to factor the surge in new account creation and activity in dormant accounts [Read more on JAM Trinity].
 ü Politics and various elections are known to run on cash. Same is the case with sectors such as real estate. Expect a gradual reform in this area

Denomination	Number of Units in Circulation (in millions)	%age of units out of the total circulation	%age value out of the total value of notes
Rs 100 note	15778	17.5	09.6
Rs 500 note	15707	17.4	47.8
Rs 1000 note	06326	07.0	38.6

Cash is the king – In India majority of the transactions are done in the form of cash

- As per RBI, 87% of the transactions in India are cash transactions
- As per RBI report, debit cards at ATMs account for 88% and 94% (by volume and value respectively) of the debit card transactions and 12% and 6% account for POS transactions.
- The infrastructure growth is slow – The POS machines and ATMs are 1.2 million (and there are around 14 million merchants in India, in essence more than 90% of the merchants are not using the POS machines) and 0.19 million respectively. (From 2013 to 2015, ATMs increased by 43% and POS machines by 28%)
- **Reasons**
 - ATMs and POS machines are concentrated in urban area
 - Penetration in non-urban areas is very poor add to this, the connectivity issues
 - Even if the POS machines are installed, low value transactions

are discouraged by the merchants

- **Silver lining**
 - The number of card issued are on the rise
 - The acceptance infrastructure has to be placed
 - Increasing trade on e-commerce (provided it promotes online payments/transactions)
 - Increasing number of digital wallets-Paytm, Pockets etc
 - The government has implemented Jan Dhan Yojana and under this a large population has been able to open their accounts which will be helpful (in the sense the debit cards issued have increased)
- **Menace of counterfeit currency (FICN- Fake Indian Currency Notes)**
 - As per the statements given in RS by Arjun Ram Meghwal (Minister of State for Finance), the total FICN is to the tune of Rs 400 Cr
 - As per the Lok Sabha Website between 2011 and 2015, the RBI has seized around 26 lakh counterfeit notes of denomination Rs 500 and Rs 1000 amounting to Rs 167 Cr
 - Amongst the two, FICN of Rs 500 currency notes were higher (both in numbers and in value)
 - As per a study done by ISI (Indian Statistical Institute), at any given point of time, the FICN is to the tune of Rs400 Cr and annually the FICN pumped into the economy is Rs 70 Cr.

Measures taken

- FCORD (FICN Co-Ordination) group has been set up by MHA (Ministry of Home Affairs) to share the information with other security agencies regarding controlling FICN
- The MHA (Ministry of Home Affairs) has set up CCT Cell (Combating Financing of Terrorism Cell) to coordinate with FATF (Financial Action Task Force- it's a intergovernmental body has remarked that high value bills are used in money laundering schemes, racketeering, and drug and people trafficking)
- TFFC (Terror Funding and Fake Currency Cell) has been set up under NIA (National Investigation Agency) to investigate the terror financing using FICN
- MoU (Memorandum of Understanding) has been signed between India and Bangladesh to prevent circulation and smuggling of FICN (majority of the inflows of FICN is done through Pakistan, Nepal and Bangladesh).
- **Less cash Vs Cashless**

Debate has been raging in India over the need for the country to become a cashless economy but the fact of the matter is that sudden shift from cash based to cashless will have huge repercussions and not to forget that cash facilitates trade, hence there is a need for India to first move into less-cash economy (one of the aims in introducing Rs 2000 note) and then move towards becoming a cashless economy.

Pros of Demonetization

- The menace of black money can be controlled to some extent
- Terror financing, using black money for illegal activities etc will all take a hit
- The counterfeit currencies

which have an impact on the real economy, will be rooted out

- The mobilization of deposits in the banks will increase, which may lead to increased credit flow and lowering of lending rates
- The black money adds to the inconspicuous demand and hence the inflation to some extent will be under control
- The government is also aiming to raise its revenue collection (eg- by taxing exorbitant IT rates over certain deposits, the tax collection in other forms will also increase etc)
- The real estate is one of the major sources of black money generation. With this move it is expected that the property market rates may bottom out or moderate
- It's a major step by the government towards forming a cashless economy
- The honest workers will be rewarded under such scenario
- The elections are usually associated with black money generation and circulation, with this scheme the funding of elections through nefarious ways will be hit
- It is expected that with this move the Fiscal Deficit of the government may come down.

• Cons of Demonetization

- For one all the black money is not stored in the form of cash only and secondly the measure takes care of result but not the cause-black money is generated

mainly because of corruption and tax evasion. This measure controls the usage of black money but cannot control the causes

- Sudden and huge demand for the new currencies
- Panic amongst the common man (already we have seen the case wherein people have looted fair price shop in MP, Cash Carrying companies seeking higher insurance etc). already the panic has led to people hoarding currencies which has further reduced the liquidity in the market
- The small trade/shopkeepers are facing difficulties
- Black marketing of the new notes/currencies is on the rise
- The establishments such as banks, hospitals etc are under lot of stress
- Another area which is a cause of worry is the likely drop in the rural demand as the cash usage will become restricted. Apart from this the experts are also expecting an impact on SME sector, agricultural production (the economy was expected to perform well as there was an expectation of a good rabi crop after two bad monsoons but a prominent economist, Pronab Sen has said that demonetization is akin to third bad monsoon year as it will have an impact on agricultural production, but the more dangerous situation is this having a spillover effect on to

fertilizer, tractor sectors)

- **Challenges**

- The coverage of the banking sector-
 - Only 27% of the villages have a bank within 5 Kms (as per Economic Survey 2015-16)
 - In spite of recording breaking implementation of JDY, the banking penetration is low-on an average 46% in all the states (as per Economic Survey 2015-16)
- Another challenge in implementing and eradicating black money would be presence of informal economy. It accounts for 45% of GDP and 80% of employment hence this move may have a greater impact on informal economy
- Logistics and cost challenges of replacing all the Rs 500 and Rs 1000 notes – as per the RBI documents this measure would cost at least Rs 12000 crore as it has to replace over 2300 crore pieces of these currencies
- The decision to issue Rs 2000 denomination currency and withdrawal of Rs 500 and Rs 1000 currency will lead to huge challenge as most of the day to day transactions in India are centered around Rs 500 note (more than 47% of the value of notes in circulation is in Rs 500 note form)
- The availability of Rs 500 and Rs

- 1000 notes will be the biggest challenge as both of them covered over 85% in terms of value of total currencies issued
- The process has led to huge rush and long queues of the people in front of ATMs and as per the statement of finance minister the ATM recalibration would take around 2 to 3 weeks
 - As per data furnished by the Finance Ministry, Rs 17,50,000 crore worth of currency notes were in circulation in October-end, out of which over 85% per cent or Rs 14,50,000 crore is in the now defunct Rs 500 and Rs 1,000 notes. So far for the first four days the government has been able to pump in Rs 50000 cr (on an average 12500 Cr). Going by these numbers it would take around 4 months to replace these notes as against the 50 days promised by the PM

FINDINGS

Demonetization has given a boost to digital payments and is encouraging people to shop online more. While as a business CashKaro's transactions fell 20% post the announcement but now things are stabilizing.

The announcement has bought a lot of value consciousness amongst shoppers and as a result, users are looking for more Cashback deals on basic items like groceries, consumables etc.

CashKaro is seeing an increase in the number of people clicking through our site and going to their partner retailers to purchase such daily essentials. Retailers too are offering incentives to promote the 'Go Cashless' movement. with increased adoption of cashless payment methods CashKaro will be able to drive more sales to partner e-tailers including Amazon, Flipkart,

Snapdeal and more.

MANAGERIAL IMPLICATION

Demonetization was a major move in keeping with the Government's promise to tax all undeclared assets in the nation. Over the course of the years the government had asked citizens to declare their undeclared assets with increasing fines the later they declared it. The fines levied increased rapidly during the course of the last two years with 10% tax being levied at the start of the tenure now increasing to 45% tax for those who declare undeclared assets by September 2017. The prime minister in his speech announcing demonetization said that 1.25 lakh crore rupees of black money had been already retrieved. A retrospective look on whether demonetisation was necessary is an exercise of futility. What is more significant understands the impact it will have on the economic, social and political situation in the country. Rs1000 and Rs500 notes made up roughly 85% of the circulating cash in the country. An overnight announcement giving no time for preparation left a large percentage of the country cashless. This threw the banks into crisis control mode with long lines being the norm in every branch. There were numerous instances of crowds becoming uncontrollable and causing damage to bank property. The biggest impact was the non-functioning of ATMs as they were not recalibrated for the new notes. The Reserve Bank had instructed the banks to stock ATMs with 100 rupee notes. Prime Minister gave strong decision to not to levy toll tax to keep the economy on right track. In real sense it helped a lot to the road transport. The old currencies validation at Indian Railway was also a big support to the railway transport. These decisions were very much effective to save the foundation of our economy. These decisions are praiseworthy.

CONCLUSION

There is no doubt that e-transaction will

strengthen the people of India. It will bring the transparency in the economy. We can surely hope a good future with this decision. The black money must be arrested at any cost. We should learn quickly the e-transaction process to make

paperless economy. The Government's move on the black money will provide long-term benefits for the economy. The move will witness massive growth in the country's economy.

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