

IMPACT OF DEMONETIZATION ON E-COMMERCE AND ONLINE PAYMENT SYSTEM

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ABSTRACT

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. Demonetization affects the economy through the liquidity side. Its effect will be a telling one because nearly 86% of currency value in circulation was withdrawn without replacing bulk of it. Several e-commerce companies hailed the demonetization decision as an impetus to an increase in digital payments, hoping that it would lead to a decline in COD returns which could cut down their costs. Though demonetization brought with it a sudden decline in e-commerce transactions, the first quarter of 2017 has brought some positive changes. Demonetization aims at pushing consumers towards making digital payments, thereby contributing to a cashless economy. Despite bringing chaos in its initial days, demonetization in the long run is considered beneficial to the growth of e-commerce in India. One of the long term benefits for the e-commerce industry is reduction in payments via COD.

If there is one thing that has been growing at a good pace after demonetization, it is online payments. Rather than being tied up in the cash crunch and standing in the never ending ATM queues, more people switched to online payments. There has been a rise in the number of debit and credit card transactions. Even smaller vendors have introduced cashless payment methods. Demonetization is also affecting Ecommerce and online trading in Indian market. E-commerce has revolutionized business, changing the shape of competition with internet, the computer communication network creating a e-commerce market place for consumers and business. With developments in the Internet and Web-based technologies, distinctions between traditional markets and the global electronic marketplace-such as business capital size, among others-are gradually being narrowed down. As mobile technology improves and evolves, more investors will utilize smart phones and PDAs to trade. E-Trade is currently the online discount broker who is most aggressive in advertising and developing PDA and smart phone compatible software which allows their clients to trade on the go without the use of laptops.

Keywords: *Demonetization, COD, PDA, E-Commerce, E- Trade*

INTRODUCTION

Demonetization is a radical monetary step in which a currency unit's status as a legal tender is declared invalid. This is usually done whenever there is a change of national currency, replacing the old unit with a new one. On 8 November 2016, the Government of India announced the demonetization of all 500 and 1,000 banknotes of the Mahatma Gandhi Series. The government claimed that the action would curtail the shadow economy and crack down on the use of illicit and counterfeit cash to fund illegal activity and terrorism. The sudden nature of the announcement and the prolonged cash shortages in the weeks that followed created significant disruption throughout the economy, threatening economic output. Prime Minister of India Narendra Modi announced the demonetization in an unscheduled live televised address at 20:00 Indian Standard Time (IST) on 8 November. In the announcement, Modi declared that use of all 500 and 1000 banknotes of the Mahatma Gandhi Series would be invalid past midnight and announced the issuance of new 500 and 2000 banknotes of the Mahatma Gandhi New Series in exchange for the old banknotes.

The BSE SENSEX and NIFTY 50 stock indices fell over 6 percent on the day after the announcement. In the days following the demonetization, the country faced severe cash shortages with severe detrimental effects across the economy. People seeking to exchange their bank notes had to stand in lengthy queues and several deaths were linked to the rush to exchange cash. Initially, the move received support from several bankers as well as from some international commentators. The move has also been criticized as poorly planned and unfair, and was met with protests, litigation, and

strikes against the government in several places across India. Debates also took place concerning the move in both houses of parliament. The move reduced the country's industrial production and its GDP growth rate. By the end of August 2017, 99% of the banned currency was deposited in banks, leaving only around 14,000 crore of the total demonetized currency discarded.

Digital transactions and cashless economy:

The demonetization was initially seen by some sources as a significant step towards making India a cashless economy. Prime Minister Narendra Modi appealed to Indian population in his radio address in Dec 2016 to go cashless with slogan - 'Less-cash' first, 'cashless society' next. More people began using cards and e-wallets, and the demand for point of sales (POS) or card swipe machines increased. This led to the acceleration of installation of POS machines. According to data of Pine Labs, the demand for its POS machines doubled after the decision. The company stated that the debit card transactions rose by 108% and credit card transactions by 60% on 9 November 2016. However concerns were raised regarding the lack security of mobile apps used for digital transactions. Several e-commerce companies hailed the demonetization decision as an impetus to an increase in digital payments, hoping that it would lead to a decline in COD returns which could cut down their costs. In December 2016, the government launched an app called BHIM (Bharat Interface for Money) based on the Unified Payment Interface. In September 2017, Google launched its first India-only banking app using BHIM called Google Tez that can be used by customers of over 50 banks on the UPI platform, and is available in several Indian languages. Both the Immediate Mobile Payments System (IMPS) and the United Payments Interface (UPI), which support instant payments using mobile phones, have grown substantially since demonetization, even as cash has returned to the economy. After peaking in December 2016, digital transactions declined from January 2017 onwards, thus thwarting the objective of increasing digital payments through demonetization.

OBJECTIVES OF THE STUDY

1. To study the impact of demonetization on E-commerce.
2. To study the impact of demonetization on online payment system.
3. To identify the findings and suggestions.

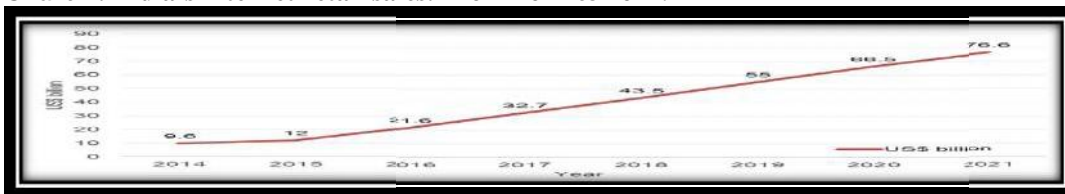
RESEARCH METHODOLOGY

The study is based on secondary data. The secondary data have been collected from various sources from books, magazines, journals, newspapers, published and unpublished articles websites etc.

EFFECTS OF DEMONETIZATION ON E-COMMERCE & ONLINE PAYMENTS

Demonetization is the hottest new topic in the country. Financial analysts everywhere are talking about what the long-term impacts could be while several businesses and people are caught up in the unprecedented cash crunch that has been caused. With the retail businesses taking an all new dimension thanks to the growth of the internet, the business models and the payment methods have all changed. And this complex model is now further complicated by the introduction of demonetization. Though it is true that this can lead to a more positive effect in the long term, talking about the short term effects, it has been predominantly adverse for the customers and businesses. Online money transactions and digital payments are not as difficult as they were before. This makes it easy for you to smartly tackle the sudden ban on old currencies. And online transactions do come with a lot of benefits. This is the right time to unleash the full potential of your debit cards. Make online payments, apply for easy loans, pay all your bills and do a lot more with just a debit card.

Chart-1: India's internet retail sales. From 2014 to 2021.



After demonetisation is expected to boost internet retail sales in e-commerce from 2014 to 2021 like 9.6,12,21.6,32.7,43.5,55,66.5 and 76.6.

Growth of E-Commerce after Demonetisation:

Though demonetization brought with it a sudden decline in e-commerce transactions, the first quarter of 2017 has brought some positive changes. Demonetization aims at pushing consumers towards making digital payments, thereby contributing to a cashless economy. NITI Analog published a report on the growth of digital payments in India post-demonetization. According to this report, digital payments have seen a whopping surge of 271 per cent in the very first month following demonetization. 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 demonetization. Transactions via RuPay cards have also increased suggesting that more Jan Dhan account holders have started using debit cards for online transactions. “We saw an initial decline in transactions for the 1st 10 days of demonetization; 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 Coupnoz Guru.

THE IMPACT ON E-COMMERCE

1. Undelivered Orders: Most of the orders that were placed with the cash on delivery option could not be delivered because the online retailers could not accept old notes. All the overheads and the costs incurred in shipping the orders go a waste in case of undelivered orders. This is indeed a significant loss for the e-commerce players.

2. Suspension of COD Orders: Some of the retailers temporarily suspended the option of paying with Cash on delivery.

3. Reduction in a Number of Orders: As a major chunk of orders placed on the online sites is paid with cash on delivery, demonetization had a detrimental effect on the number of orders placed. People only had to wait to get their old currencies to be exchanged and few of the customers are skeptical about online payments. This led to a notable surge in the number of orders placed on the online shopping sites.

4. Short-term Impact on E-commerce Partners: Stagnant goods returned undelivered orders, reduction in the cash flow, all together came as a severe blow for the e-commerce partners. But economists, as well as the e-commerce business sectors, believe that this effect is a temporary one and that the long-term impact is going to make things better for them.

5. Attend Live Digital Orientation Session: Though the situation cannot be fully rectified in one go, e-commerce retailers could take certain steps to make it easy for the customers to make their payments and thus, in turn, help their own businesses as well.

6. Expand the payment options available: Besides payment through internet banking and debit or credit cards, mobile wallet payments are great too. E-commerce sites can start adding more options of payments and payment through popular mobile wallets too.

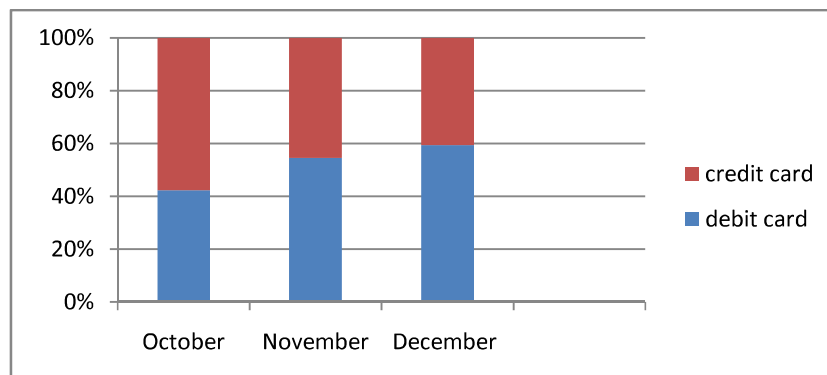
7. Increase the number of POS terminals: Currently, the number of POS devices is pretty low in relation to the number of online orders made. By increasing the number of POS devices, e-commerce players can make it convenient for the customers by allowing them the security and convenience of COD orders. This, in turn, would reduce the number of undelivered orders for the online retailers thus making it a win-win situation.

8. Lucrative Discount Options: Several retailers also ran attractive promotions and discounts so as to encourage people to place orders.

9. Go Cashless to make Payments: Online retailers also have introduced impressive discounts for all the cashless payments. This encourages more customers to choose a payment method other than COD and claim their discounts and in turn helping the e-commerce businesses retain a reasonable cash flow.

Digital payment gain: With cash in short supply, citizens took to digital payments. The channels such as the unified payment interface (UPI), prepaid instruments like mobile wallets, debit card and credit cards saw increased usage due to the low availability of cash. However, ease in availability of cash by progressive demonetization impacted the pace of growth of digitalization in February 2017. Further efforts are essential to enhance the use digital payment going forward.

Chart-2: Post demonetization effect comparing only October and December.



More than 41% increasing total value of transactions over POS. value of debit card transactions over POS saw more than 100% increase.

Table-1: E-money Gains Currency.

Transaction/ day	Transaction/ day	November 8th	December 7th	difference
RuPay cards(eComm+PoS)	Number(lakhs)	3.85	16	12.15
	Value (Cr)	39.17	236	196.83
E-wallets	Number(lakhs)	17	63	46
	Value (Cr)	52	191	139
UPI	Number	3,721	48,238	44,517
	Value (Cr)	1.93	15	13.07
USSD	Number	97	1,263	1,166
	Value (lakhs)	1	14	13
		Oct Avg.	Nov Avg.	
POS	Number(lakhs)	50.2	98.1	47.9
	Value (Cr)	1,221	1,751	530

THE IMPACT ON ONLINE PAYMENT

If there is one thing that has been growing at a good pace after demonetization, it is online payments. Rather than being tied up in the cash crunch and standing in the never ending ATM queues, more people switched to online payments. There has been a rise in the number of debit and credit card transactions. Even smaller vendors have introduced cashless payment methods.

Tackling the cash crunch by tapping the potential of online payments: There has been a significant growth in the mobile wallet sector. Transferring money as well as making payments for online orders is easy with mobile wallets. More people have begun to fill up their mobile wallets resulting in the growth of the mobile wallet providers like Paytm, Mobi kwiqe and more. Unified Payments Interface (UPI) will see a steady growth. The support of the government has also been in favor of promoting UPI for online payments. The first main benefit is the freedom to choose an EMI option for your bigger purchases. If you purchase a smart phone or laptop on EMI, you short-term financial strain would be less. Banks like ICICI have introduced debit card EMI option for mobile and other purchases. This can also benefit customers making online purchases without a credit card. Imagine being to purchase all high-end smart phones and laptop on EMI even without owning a credit card! You could choose to purchase all the gadgets, furniture and appliances you have always hesitated to purchase due to your financial constraint through online loans and pay easily with your debit card. These micro-loans are paid through your debit cards and thus make it easy for you to purchase any gadget say like iPhone 5S on EMI without a credit card from any of your favorite online retailer. Online payments are quick, hassle free and time saving. And EMIs are the best part about online payments. This avoids causing a financial strain when you make a large value purchase. Know

how easy it is to get instant loans for all your appliance, furniture and gadget purchases. So do not let the ban on currency notes of higher denominations stop you from buying all that you wanted.

FINDINGS

Despite bringing chaos in its initial days, demonetization in the long run is considered beneficial to the growth of e-commerce in India. One of the long term benefits for the e-commerce industry is reduction in payments via COD. It has been found that pre demonetization the frequency of shopping through retail shop was 48% and consumer used to buy fewer products through online shopping. Post demonetization frequency of online shopping has increased drastically from 27 % to 57 %. To better understand the Indian market, 100+ retailer clients, through 1.4+ million purchases, from over 2+ million transactions. A first of its kind in India, this study is unique in its findings about the booming Indian E-Commerce industry. Online marketers of every size are benefiting from these findings.

SUGGESTIONS

Though demonetization brought with it a sudden decline in e-commerce transactions, the first quarter of 2017 has brought some positive changes. Demonetization 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-demonetization. According to this report, digital payments have seen a whopping surge of 271 per cent in the very first month following demonetization. With cash in short supply, citizens took to digital payments. Representative data by the central bank shows that the volume and value of transactions has risen significantly between November 2016 and February 2017, although it had moderated from the peak hit in December. Channels such as the Unified Payment Interface (UPI), prepaid instruments like mobile wallets and debit and credit cards, saw increased usage due to the low availability of cash. The RBI, however, acknowledged that ensuring the surge in digital payment sticks may not be easy.

CONCLUSION

It is definitely difficult to estimate how long it takes for the recovery in consumer demand but our hope is that we will see a hike in e-commerce platforms once the daily withdrawal limits are lifted. It is pretty clear that demonetization has impacted the e-commerce industry. Due to demonetization consumers are buying more products through online mode instead of retail shops due to cash crunch. The consumers have adopted new method of making payment where prior to demonetization, consumers were making payment by choosing the cash on delivery option but now majority of them are shifted to debit card and Paytm wallet to make payments. Hence, it can be concluded that demonetization has opened up more opportunities for the ecommerce industry and it will prove huge boon for digital payment market.

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