

Demonetization of Higher Denomination Banknotes in India and Growth of Mobile Wallet Business Transactions

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Abstract

This paper will discuss the effect of the recent denomination policy of the Government of India on the growth of mobile wallet business transactions. The impact is not going to be same across the different sectors of the economy. The business units that have a larger cash component in their transactions will be affected harder, such as reality, construction, movie production, etc. This will lead to some correction in these markets. Whether these corrections results in reducing prices is something to be watched closely. Demonetization of high value currency notes in India will provide a big boost for mobile wallet in India. Reduction in cash transactions will help multiply digital and plastic transactions such as cheques, credit card and mobile wallets. "Demonetization is the act of stripping a currency unit of its status as legal tender. It is the process of ceasing to produce and circulate particular forms of currency. It is necessary whenever there is a change of national currency. The old unit of currency is retired and replaced with a new currency unit."¹

Keywords: denomination, mobile wallets, online banking

1. Demonetization in India

High denomination notes are misused by terrorists and for holding black money. Since India is cash based economy the circulation of fake Indian currency notes continues to be a threat. In order to contain the rising incidence of fake notes and black money, the Government of India has introduced the scheme to withdraw the existing bank notes in denominations of Rs. 500 and Rs. 1000 issued by the Reserve bank of India till November 8, 2016. Further these Bank Notes cannot be used for transacting business or store of value for future usage.

The Specified Bank Notes can be exchanged for value at any of the 19 offices of the Reserve Bank of India or at any of the bank branches of commercial banks/ Regional Rural Banks/ Co-operative banks or at any Head Post Office or Sub-Post Office.²

1.1 Impact of Demonetisation

The effect of this policy is not going to be same across the different sectors of the economy. The business units that have a larger cash component in their transactions will be affected harder, such as reality, construction, movie production, etc. This will lead to some correction in these markets. Whether these corrections results in reducing prices is something to be watched closely.

However, these are corrections which will move the market equilibrium to outcomes which reflect true demand and supply in the real economy.³

The festive spirit received a jolt when all the Rs 500 and Rs 1000 denominators of currency were asked deposit in banks and were literally scrapped out. People of the country faced massive inconvenience but there is one segment that was most frustrated, the car makers. The companies were hoping for a rise in sales owing to lucrative price cuts and prevalent festive season, but the customers are not responding positively due to this decision.⁴

1.2 Impact of Demonetisation on urban consumers, small and large businesses

Traditional sectors, such as real estate and construction, which are politically controversial and where there is a huge scope for corruption and high-value cash transactions, will likely to go through a tremendous amount of problems for the next few weeks. This move deeply impacts the working sections of society like drivers, electricians, plumbers, etc. Anybody who provides services in the informal sector and depends on monthly or daily cash payments. For the rural Indian customers who doesn't have access to a bank account and depends on high-value cash transactions will be crippled until new notes come through.⁵

India is continuously struggling to curb corruption and slush funds in the economy, or "black money".

¹ <http://www.iasparliament.com/demonetisation>

² <https://rbi.org.in/Scripts/FAQView.aspx?Id=119>

³ <http://www.iasparliament.com/demonetisation>

⁴ Attri, D. (2016, Nov 11). Festive offers that could suffer due to demonetization of INR 500 & 1000 notes. *Oncars India*, Retrieved from <http://search.proquest.com/docview/1838505019?accountid=166506>

⁵ www.business-standard.com/article/economy-policy/five-likely-effects-of-demonetisation-on-economy-116110901411_1.html

The country has been ranked 76th among 168 countries in Transparency International's 2015 index on corruption, which is estimated to cost the country for about 1-2% of GDP every year.¹

2. How Mobile Wallet works in Business transactions

A mobile wallet is a way to carry one's credit card or debit card information in a digital form on a mobile device. Instead of using a physical plastic card to make purchases, one can pay with the help of smartphone, tablet, or smartwatch.

A mobile wallet is the digital equivalent to the physical wallet we already have in our pockets today. It is a vault to store digitized valuables for authorization. These valuables grant permission for usage or access to goods, services or places.²

"Technologies already exist that could allow mobile phones to function as payment devices. In one effort in the US, PayPal has entered into a partnership that lets its payment processing system link up with the mobile payment system offered by the startup Bling Nation."³

"The challenges of payment transactions were initially underestimated. Business via the internet and mobile telephony has so far been dominated by the methods of payment systems in traditional business. However, in light of advances in technology, traditional business models are increasingly coming up against their limits. e-wallet is a convenient, easy-to-use, secure payment system. It is flexible "Electronic payment system" with a number of payout and pay-in options via bank account and Credit/Debit cards."⁴

"With the rapid growth in the number of the domestic mobile phone users and the widespread use of the third generation (3G) mobile communication technology, mobile payment will become a new means of payment and be gradually accepted."⁵

"Market researchers paint a very rosy picture for adoption. Allied Market Research projects that the worldwide market will double from more than \$16 billion in 2013 to \$32 billion in 2014 and reach \$5,200 billion in 2020, reflecting a growth rate of approximately 100% over seven years. With mobile wallets, financial assets are stored on a device that many consumers have grown attached to."⁶

2.1 Demonetization is a big boost for Mobile wallet in India

Demonetization of high value currency notes in India will provide a big boost for mobile wallet in India. Reduction in cash transactions will help multiply digital and plastic transactions such as cheques, credit card and mobile wallets. As Indians start getting used to handling digital money, their trust in anything online and mobile will get a big boost. More Bank accounts will be opened by citizens as they will start keeping their money in a Bank. More and more online transactions will take place not only in urban areas but also in suburban and rural areas. New online users will need a good understanding of the terms and conditions of usage and will demand more information on the products and services they're buying without being able to touch and feel. This information must be made available in simple layman language and vernacular, something that simple people will be able to understand and trust.

Businesses that are able to develop and implement a comprehensive strategy to address rural and suburban markets will find favour with the next 80-100 million new users that are likely to attempt small online transactions carefully. The companies that are able to win the trust of these users and provide them quality products and services will have the first mover advantage.⁷

2.2 Example of Paytm - after the recent demonetization in India

Paytm, India's largest mobile wallet company, Since 9th November, the company claims to have registered a 700% increase in overall traffic on the platform and 1000% growth in the value of money added to Paytm accounts. In addition, the average transaction value has increased by 200% and the number of mobile app downloads by 300%. "Owing to the overwhelming response from consumers and merchants alike, we have set

¹ <http://www.hindustantimes.com/india-news/rs-1000-and-500-notes-become-history-in-pm-modi-s-war-on-black-money/story-flWdjMm3yVMrbN04rI8jPO.html>

² <http://asmarterplanet.com/mobile-enterprise/blog/2015/01/what-is-a-mobile-wallet.html>

³ Naone, E. (2011). Turning your phone into a wallet. *Technology Review*, 114(3), 76. Retrieved from <http://search.proquest.com/docview/907957962?accountid=166506>

⁴ Uddin, M. S., & Akhi, A. Y. (2014). E-wallet system for bangladesh an electronic payment system. *International Journal of Modeling and Optimization*, 4(3), 216-219. doi:<http://dx.doi.org/10.7763/IJMO.2014.V4.376>

⁵ Liu, W., Zhang, J. L., & Yang, G. M. (2012). Research on construction of mobile payment system based on the phone financial IC card. *Applied Mechanics and Materials*, 178-181, 2658. doi:<http://dx.doi.org/10.4028/www.scientific.net/AMM.178-181.2658>

⁶ Korzeniowski, P. (2014). MOBILE WALLET BUILDING BLOCKS SLOWLY TAKE SHAPE. *CRM Magazine*, 18(10), 34-38. Retrieved from <http://search.proquest.com/docview/1651423886?accountid=166506>

⁷ <http://process9.com/blog/2016/11/09/demonetization-high-value-currency-notes-india-big-boost-digital-india/>

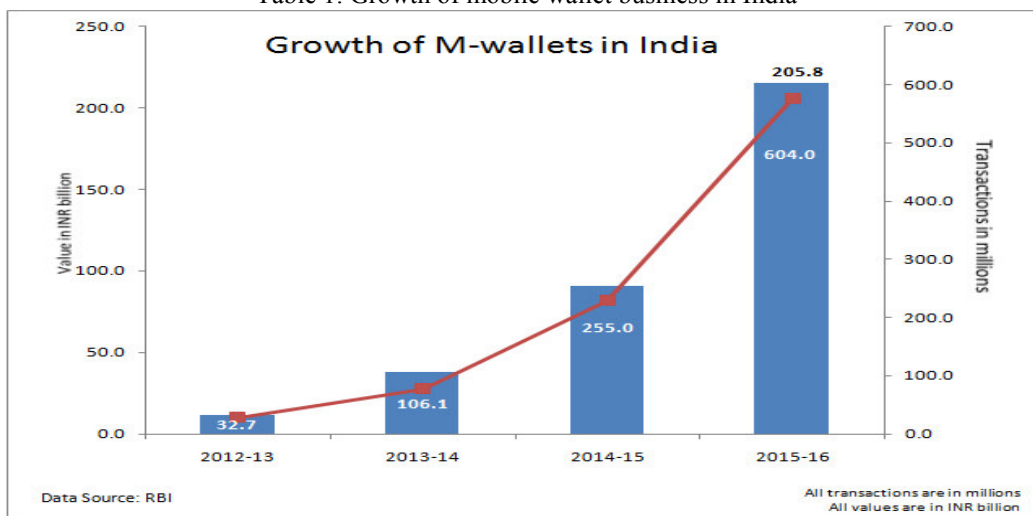
bolder targets in merchant acquisition, and are aiming to target five million merchants by the end of the financial year,” said Paytm’s senior vice-president Kira Vasireddy in a statement.¹

The company has noted 1000% growth in money added to the wallet and 400% growth in transaction value.² Paytm also announced the Nearby product feature on its platform that will allow users to find the nearest merchant to load cash on to their Paytm wallets.

Like Amazon India, Flipkart and Snapdeal, even Paytm has halted cash on delivery option on its marketplace. However, the company claims it won’t have much effect since nearly all items on its platform were bought either using Paytm wallet or credit and debit cards. “It is a historic day for India and it re-validates our belief in giving consumers a great experience through non-cash purchases. This reflects in the fact that over 98 percent of items are bought through our wallet and other pre-paid payment instruments on our marketplace. Keeping in spirit of the moment we are temporarily disabling CoD orders to avoid any inconvenience to our consumers at the time of delivery. We will continue to focus on making payment simpler for our consumers and providing them with a great experience,” said Saurabh Vashishtha, Vice President – Paytm.³

2.3 Growth of mobile wallet business in India

Table 1. Growth of mobile wallet business in India



From the last four years date given below, m-wallets have shown impressive growth from the year 2012-13 to 2015-16. The business has grown more than 15 times in both in terms of value and volume.

Mobile wallets account for less than 0.1% of total payments in India. Those will most likely change with this announcement. At present, even as the debate is on about how much the decision will be able to curb black money, few can question the positives that it will have on digital payment in general and mobile wallets in particular.⁴

Data published by the Reserve Bank of India tells a story of a massive growth in both adoption and usage of mobile wallet as a mode of payment.

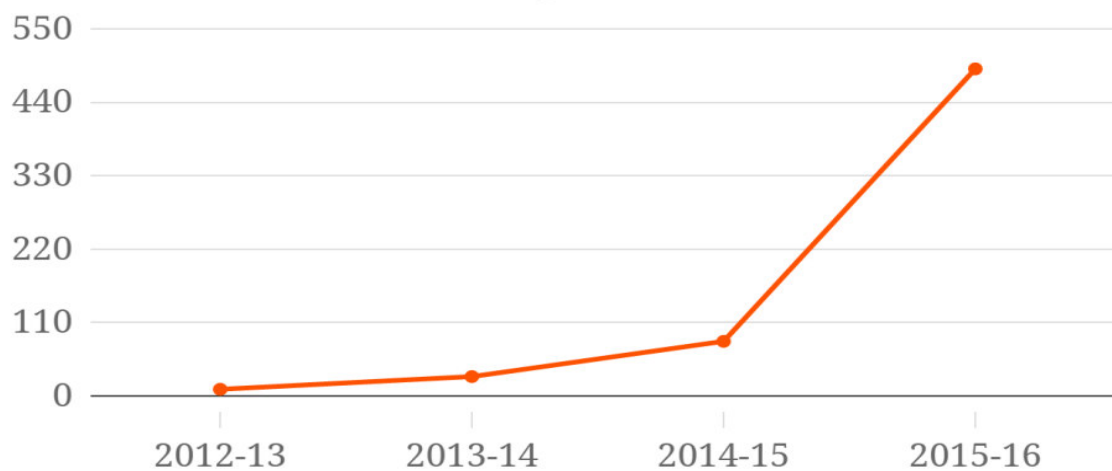
¹ <http://www.livemint.com/Companies/gWu18E6zIzsI0tfsANYsFL/Paytm-claims-record-number-of-transactions-after-govts-demo.html>

² <http://ecoti.in/a98VaZ> via @economictimes

³ <http://www.bgr.in/news/paytm-app-downloads-grew-by-200-pc-since-india-demonetized-rs-500-rs-1000-notes/>

⁴ <http://www.cioandleader.com/article/2016/11/09/why-demonetization-will-boost-mobile-wallets>

Transactions carried out through mobile wallets (Rs, billion)



Scroll.in

Data: Reserve Bank of India

Figure 1. Mobile wallet transactions from the year 2012-13 to 2015-16

Over the past four years, mobile wallet transactions have grown from Rs 10 billion of transactions in 2012-13 to more than Rs 490 billion in the year 2015-16. Taxi app Uber's adoption of Paytm has lead way in popularizing mobile wallets and even pushed its competitor Ola to build a wallet of its own. Not only the value of transactions that is over whelming, it is the rate at which they are adopted.

The value of transactions carried out through mobile wallets have grown by a humongous 500% between 2014-'16. Meanwhile, the number of transactions carried out through m-wallets has doubled in the same time period.¹

"The use of technology has brought a revolution in the working style of the banks. Nevertheless, the fundamental aspects of banking i.e. trust and the confidence of the people on the institution remain the same. This situation has denied the banks the much needed information regarding this important area of financial innovations sometimes leading to reverse causality in the innovation-financial performance relationship."²

Conclusion.

According to Priyashmita Guha, a fellow at iSpirt, "Android phones had still not reached maids and drivers. "The lack of local languages or identifiable icons to make transactions happen in an easily perceivable way on smart phones is still not in place. While demonetization does give a thrust to digital payments, it will be years before we see big online payment adoption,"³

Thus, the As Indians start getting used to handling digital money, their trust in anything online and mobile will get a big boost. More Bank accounts will be opened by citizens as they will start keeping their money in a Bank. More and more online transactions will take place not only in urban areas but also in suburban and rural areas. New online users will need a good understanding of the terms and conditions of usage and will demand more information on the products and services they're buying without being able to touch and feel.

¹ <http://scroll.in/article/809228/three-charts-show-how-mobile-wallets-are-exploding-in-india-but-plastic-cards-are-still-ahead>

² Goyal, S., Chawla, D., & Bhatia, A. (2016). INNOVATION: KEY TO IMPROVE BUSINESS GROWTH OF BANKING INDUSTRY. *International Journal of Advances in Engineering & Technology*, 9(3), 331-346. Retrieved from <http://search.proquest.com/docview/1813558383?accountid=166506>

³ <http://retail.economicstimes.indiatimes.com/news/e-commerce/e-tailing/ban-on-rs-500-and-rs-1000-notes-e-wallets-go-mainstream/55408795>