

Impact of Demonetization on E-Commerce Websites & Payment Systems

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Abstract- That took place on 8th November 2016 by banning old 500 and 1000 rupee notes, were widespread tremors experienced by people in India. The main objective of this policy was to nullify the black market operating in every sector of our economy. It has a great significant and immediate impact on the state of Indian economy as well as on our Ecommerce websites. Modi ji has impacted E-Commerce and at the same time it has an impact on the consumers and their shopping behavior through online shopping. This paper attempts to understand and analyze the effect of demonetization on consumer's frequency of buying product and consumer's mode of payment mode through online shopping after demonetization.

Keywords: Demonetization, ecommerce, payments, online shopping.

I. INTRODUCTION

With the big announcement that came on 8th November, 2016 regarding the ban on Rs 500 and Rs 1000 currency notes, there were widespread tremors experienced by the people in India. While most of the people were hailing it as a “masterstroke” move against black money, currency counterfeiting, and terrorism. There were certain sections of people in society, which were making hue and cry about the move that has brought unnecessary problems for them. 86 per cent of the currency in circulation ceased to become legal tender after midnight of that day. According to Bloomberg data, the volume of cash transactions in India is 98 per cent as compared to 55 per cent in the U.S and 46 per cent in the UK. So demonetization spell doom for e-commerce in India.

The ban on Rs 500 and Rs 1000 currency notes have restricted the shopping ability of people through cash. Along with this, the ATM withdrawal limit of Rs 2,500 has complicated the entire matter further.

II. DEMONETIZATION AND E-COMMERCE INDUSTRY

A. Gloomy View

1) With demonetization hitting hard, the majority of e-commerce websites, such as Flipkart, Amazon, Snapdeal, Jabong and many more have disabled their Cash on Delivery (CoD) mode of payment. This has turned out to be a negative element in their business as the majority of their revenue was earned through Cash on Delivery. According to the statistics formed, almost 65% to 70% of their annual revenue was gained through CoD. Demonetization has certainly scrapped off this mode of payment and brought a low in the e-commerce industry.

2) Another issue that has been brought up by this ban is what to do with the already placed Cash on Delivery orders. Voonik, an online retailer of women's apparel, earns its major revenue through COD, just like any other e-commerce website and is still hasn't been able to figure out how to carry forward these orders. Most of these online portals are expecting the orders to be cancelled.

3) This is a cashless phase where the digital wallets like Paytm and Freecharge are overpowering the country. With smartphones available at a minimal price, every cab driver, shopkeeper and auto driver is able to buy one and download digital wallets to earn their bread and butter. However, this isn't the case with everyone and many of them are still busy standing in half a kilometer long queues to get some cash. In the rural economy where consumers are still not that comfortable with digital money yet and who are still adapting to the internet will stay away.”

B. Bright View

Demonetization was a step to curb black money stashed in cupboards of “former rich” people. It had a very positive impact on Digital India as because of shortage of cash, people are resorting to cashless transactions. Cashless transactions mean a corruption less environment.

There is a high possibility in the e-commerce sector that Cash on Delivery will be gradually stopped and other modes of digital payment will take its place, such as Card on Delivery, Net Banking, Debit Card, Credit Card etc. Demonetization will certainly assist India enhance its e-commerce industry and make it easier for people to go cashless.

III. OBJECTIVES & RESEARCH METHODOLOGY

Following objectives have been formulated:

A. To analyze the growth rate of products purchased through e-commerce websites before and after demonetization.

B. To analyze the impact of demonetization on payments modes used by the customers through online shopping

C. To identify the new payment modes came into existence after demonetization.

Methodology

This study is descriptive in nature. The paper is based upon the findings from relevant literature. Secondary data was collected from newspaper, magazines and internet sources.

IV. CHANGES IN E-COMMERCE SEGMENTS

Online shopping in India is now a day is on the boom. Rather than moving to particular shop for buying and selling people prefer online shopping. Due to demonetization people start preferring more online shopping due to crunch of cash. The graph shows the status of online shopping traffic pre and post demonetization. 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. For online retailers COD involves additional cost and the risk of returns or thefts is higher in this form of payment.

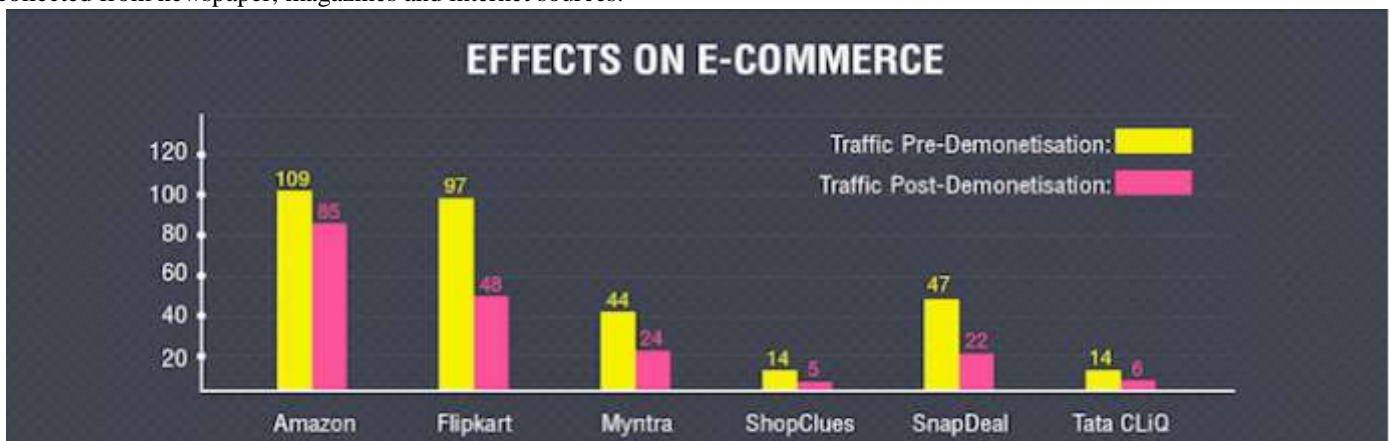


Fig 1. Effects on E-Commerce

Here is how demonetization has affected the 4 main segments of the e-commerce industry.

A. Online Retail

Online retailers like Amazon and Snapdeal welcomed the Government's move on demonetization but they have also had to deal with a slump in business. There has been a 30 per cent-40 per cent reduction in COD orders. The final quarter of 2016 was definitely not as fruitful as in the previous years for giants in the e-commerce industry. The consumer is not in a mood to spend and this situation is expected to continue till the end of the first quarter in 2017. Most of the online retail stores continue to be dependent on cash payments as it is going to take some time for all customers to switch to digital payments.

B. Payments

The digital wallet and payment segments have emerged clear winners post demonetization. Local vegetable shops and paani puri vendors have been showcased on social media for displaying signs asking for digital payments. Payment gateways have already seen an 80 per cent growth and the number is increasing each week. There is a growth in low-value transactions too.

C. Logistics

E-commerce based logistic firms have taken a hit as 20 per cent of COD orders were cancelled post the demonetization announcement. In the transport industry most of the transactions are done through cash and this is expected to take more than a quarter to normalize. Sahil Barua, CEO of e-commerce focused logistics firm Delivery stated that the firm has started accepting card payments and other modes of payment like wallets on delivery There are some other logistics firms that do not offer card payments and will require some time to scale up their operations.

D. Hyper-local Delivery

This sector in the e-commerce industry has seen tremendous growth post demonetization. Hyper-local delivery firms supply groceries, household items and food from restaurants to customers. The number of new customers that this segment receives is increasing by the day and there is a surge in pre-paid orders. Online food-ordering platforms like Swiggy and Zomato have seen a rise in transactions.

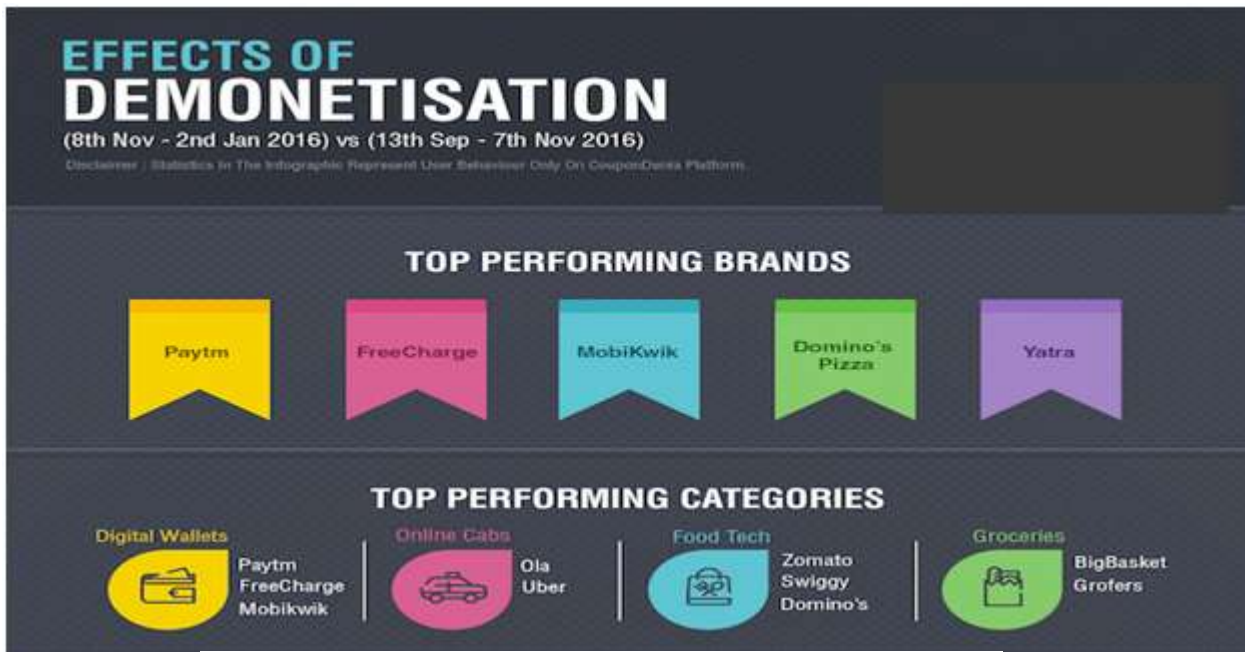


Fig 2. Effects of demonetization on different payment modes.

V. DIFFERENT PAYMENT MODES USED BY THE CUSTOMERS

The government's demonetization move, and the subsequent cash crunch, has led to a surge in digital payments. After demonetization, cashless payment methods have become a necessity for both rural and urban populations. Be it a farmer, teacher, soldier or even a CEO of a big brand, every citizen of the country needs to know about the available methods to make cashless transactions. With the current cash-crunch in the country, the Indian government is aggressively promoting digital modes of banking. The government even waived off the transaction charges on a few payment methods.

Currently available cashless payment systems include

- credit/debit cards,
- e-wallets such as Paytm, mobikwik
- Unified Payment Interface (UPI)
- IMPS
- USSD
- RTGS
- NEFT.

However, the most common problem that user find is how to finalize or select a particular payment option. Therefore, below, we present the comparison between the various payments systems are done on these parameters:

- 1) Time taken to complete a transfer/payment;
- 2) The maximum amount you can transfer;
- 3) The financial details/information (e.g. account number etc.) that you need to complete the transfer;
- 4) How is the transaction validated/authenticated.
- 5) Whether you will earn interest on the money kept in reserve in the payment system?
- 6) Whether you need to specify who the money is being transferred to in advance i.e. register the beneficiary (recipient) of the money (beneficiary registration);
- 7) What infrastructural/ technical support is a must for the transfer to happen?
- 8) What are the costs involved?

Digital Payment Options						
RTGS	NEFT	IMPS	UPI	USSD	DEBIT/CREDIT CARD	E-WALLETS LIKE Paytm
TIMINGS						
8 AM-4.30 PM 8 AM-6.30 PM Working Days		24x7				
TIME TAKEN TO COMPLETE A TRANSACTION						
REAL-TIME		SAME DAY		INSTANT#		
TRANSACTION LIMIT						
₹2-10 lakh	₹10 lakh	₹2 lakh per day	₹1 lakh per transaction	₹5,000 per transaction	Depending on bank and card you use	₹20,000 per month
INFORMATION REQUIRED						
ACCOUNT NUMBER & IFSC CODE		VPA of recipient & MPIN		MPIN/ IFSC/ Aadhaar/ Account Number	For Pos: Pin/ For online Card Number CVV, Expiry date	Login and Pay
AUTHENTICATION						
2 FACTOR AUTHENTICATION						

Fig 3.Comparison of different payment modes.

✓	✓	✓	✓	✓	✓	✗
BENEFICIARY REGISTRATION						
✓	✓	✓	✗	✗	✗	✗
TECHNICAL REQUIREMENT						
INTERNET CONNECTIVITY		Smartphone with Internet connectivity		Smartphone or feature phone	Internet connectivity: For PoS debit/ credit card also needed	Smartphone with internet connectivity
USP						
High Value Transactions	Commonly use virtual transfer system	Instant transfer	Single app for all bank accounts & "P2P" collect request	Accessed without internet	Can be used online as well as at PoS	High user base, in case of small value transactions
RTGS	NEFT	IMPS	UPI	USSD	DEBIT/CREDIT CARD	E-WALLETS LIKE Paytm
*If transferred between 8 am to 5 pm (12 noon for working Saturdays); #Provided internet connectivity is uninterrupted and high speed; PoS-Point of Sale (Presuming swipe machine is available at PoS)						

As we can see that there are so many criteria that people consider before making an online payment, and every online customer, according to their convenience and preference, has their priority of choosing a particular payment option. Therefore it can be deduced from the above that there is no single 'best' payment option for everyone and all transactions.

A. Value of transaction

One way of choosing a payment option is to base your decision on the value of the transaction. As opening user accounts, creating passwords for various payment solutions is very cumbersome; a practical way would be to choose at

least two of these applications — one for high- value transactions and other for small value transactions. You could divide the payment solutions into two categories and choose from RTGS/NEFT/debit and credit cards for transactions of over, say, Rs 10,000 and from-IMPS/UPI/USSD/e-wallets for payments below Rs 10,000. However, the value of transaction is not the only deciding factor: safety and ease of use are some of the other important parameters.

B. Authentication

In terms of authentication, standard security procedure, which is two-factor authentication, is followed in case of all

these alternatives. It refers to login ID and password set up by you coupled with something that only you can provide — a PIN or an OTP (normally sent to your registered mobile number or email address). In the upcoming versions of UPI, an additional level of authentication i.e. biometric authentication (using your smartphone scanners) is proposed to be introduced.

C. Network Safety

Apart from this, how safe your transaction is would also depend upon where and which network (public/private Wi-Fi or mobile data) you are using to make the payment transfer

Most people have several apps installed on their smartphones and almost all phone apps require access to various information/data stored on your phone. In such instances, smartphones could be more susceptible to hacking/internet virus/malware etc depending on the type of firewall installed on them.

Consequently, it would be wise to restrict using your smartphone to make money transfers to smaller amounts. The Reserve Bank of India has already limited the maximum amount that can be transacted via e-wallets and USSD to smaller values - Rs 20,000 per month and Rs 5000 per transaction, respectively. Transaction limit for UPI is slightly higher than these but still limited in comparison to NEFT/RTGS etc.

VI. GROWTH OF DIGITAL PAYMENTS AFTER DEMONETIZATION

The government's demonetization move, and the subsequent cash crunch, has led to a surge in digital payments. According to the government data, the number of daily transactions through e-wallet services such as Oxigen, Paytm and MobiKwik has shot up from 17 lakh — recorded on November 8 when demonetization was announced — to 63 lakh as on December 7 (a growth of 271%). In terms of value, the surge has been 267%, from Rs 52 crore daily to Rs 191 crore now.

Transactions through RuPay Cards (e-commerce and point-of-sale) were up 316% at 16 lakh daily (3.85 lakh on November 8), while in terms of value the growth has been 503% at Rs 236 crore (Rs 39 crore). The government,

however, did not provide a break-up of transactions conducted in urban and rural/semi-urban areas.

The government and digital payment companies expect the trend to stay strong, at least till easy availability of cash. The trend got a boost after Finance Minister Mr Arun Jaitley's announcement of a slew of incentives on Thursday for digital payments. The surge has been encouraging and in line with the government's thinking of promoting digital transactions "to drive in honest, accountable and transparent" payments, said Ravi Shankar Prasad, minister for electronics and IT.

VII. CONCLUSION

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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