

The Demonetization: How it has Accelerated Fintech Industry

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Abstract

The act of removing a monetary unit's legal tender status is known as demonetization. The Honourable Prime Minister of India, Mr Narendra Modi took the demonetization decision on November 8, 2016, with effect from November 9, 2016. For the time being, Rs.500 and Rs.1000 rupee currency notes would not be legal tender except in some critical services. The increasing the GDP growth rate resulting the higher demand of money and before the demonetization the India GDP growth rate were increasing. So when the demonetization decision was taken by the Indian government the demand of Indian currency was at the peak. Thus demonetization very hardly affects the various sectors of Indian economy and ultimately the GDP declined. At the same time demonetization have given the new life to fintech industry of India and after demonetization it increased rapidly and enjoying the last mover advantage. Demonetization pushed Indian Economy towards the cash less economy. The major goal of this research article is to look into the process of cashless economy and its implications for the financial technology industry.

Keywords: Demonetization, GDP (Gross Domestic Product), Fintech (Financial-Technology) Industry.

INTRODUCTION

Demonetization is the process of removing a old denomination with the new one . It occur whenever there is change in country's currency . The current form of money gets phased out in favour of new notes or coins. In India, Demonetisation is not new ; the 1000 and 10,000 denomination notes were demonetised in 1946. In 1954, the 1000, 5000, and 10,000 denomination notes were reintroduced, and in January 1978, they were banned once again.

The Indian government demonetised 500 and 1000 rupees high denomination currency on the 8th Nov, 2016 and it covered app. 86% value of Indian currency. Its results in the liquidity crash in the Indian market and the demand of goods and services declined and ultimately due to decline in the aggregate expenditure, GDP declined. Following table show the value of the high denomination currency in Indian economy.

“ Volume and Value of Currency Notes shown in table 1”

Currency Notes quantities			Currency Notes value			
Currency	Quantities (in Cr)	Notes (in %)	Notes ad coins	Value of Rupees(in Cr)	Currency Value (in %)	
2 & 5	1,162.6	12.88%	2 & 5	4500	0.27%	
10	3201.5	35.47%	10	32000	1.95%	
20	492.4	5.45%	20	9800	0.60%	
50	389.4	4.31%	50	19400	1.18%	
100	1577.8	17.48%	100	157800	9.61%	
500	1570.7	17.4%	500	785100	47.85%	86%
1000	632.6	7.01%			1000	
TOTAL	9026.6	100%	TOTAL	1641500	100%	

Goal of the Paper

The aim of this paper are as follow :

1. The purpose of this research is to learn more about India’s demonetization process.
2. To look into the fact how fintech industry affected by demonetisation.

Research Methodology

No primary data will be collected through a questionnaire or an interview schedule because this is a conceptual piece . Different types of instrument were used to compile the secondary data for this study for eg (Research paper , website etc)

Review of Literature

Sarkar.S, (2010) did a research on the “parallel economy” in India, where he focussed on its Causes, Impacts, and Government Initiatives, he also emphasised on the reasons and effect of ill gotten wealth in India. The fundamental cause for the development of black money, according to him, is the Indian political system, in which the countries government is more concerned with forming committees than with putting them into action . As a result, he came to the conclusion that regulations should be adequately enforced in order to manage black money in our system.

Is black money income a legitimate source of income, according to Kahanihow et al (2010). The need for DTAA

and ITEA amendments is based on the fact that illegal money is dispersed throughout India to a considerable extent and is constantly hidden overseas in a large quantity. They also looked into how black money has posed a threat to our economy and how it is used.

The cashless payment system in India was researched by Agarwal.R et al, (2010). They claimed that cash payments are an expensive proposition for the government, and that the country should move toward a cashless payment system that reduces track transactions, currency management costs, and eliminates tax dodging and fraud, among other things.

The White Paper on Black Money, edited by M. Aggarwal, (2012), looked into how violations of laws by the federal and state governments lead to illegal activity, which leads to the development of black money in the Indian economy.

The Effect of Demonetisation on Country’s GDP

Demonetization negatively affected the various sectors of Indian economy except few like financial technology sectors at their initial stage but after the remonetisation and sometime gap it became stable, connected and started growing. From the data given below we can clearly understand that after the demonetization the GDP decline but the after the sometime it comparably increased and given the sign of long term benefits of demonetization.

As per KPMG Report "GDP Growth Estimate by Various Agencies shown in Table 2"

Organisation	2016-17		2017-18	
	Before Demonetization	After Demonetization	Before Demonetization	After Demonetization
Imf	7.6	6.6	7.6	7.2
World Bank	7.6	7.0	7.7	7.6
Adb	7.4	7.0	7.8	7.8
Economic Survy Goi	7.0 To 7.75	6.5 To 6.75	-	6.75 To 7.5
Morgan Stanley	7.7	7.3	7.2	7.7
Hsbc	7.4	6.3	7.6	7.1
Goldman Sach	7.6	6.3	-	-
Icra	7.9	6.8	-	-
Care	7.8	6.8	-	-
Crisil	-	6.9	-	-
Fintch	7.4	6.9	8.0	7.7

Multiple Impact of Demonetization on GDP

Demonetization and Fintech Industry

Fintech is a combination of two word financial and technology, financial technology companies are those companies that providing the financial services by using the technology in most effective and efficient mode. As a result, the fintec industry is an economic sector made up of businesses that employ technology to improve the efficiency of the financial services sector. The Fintech industry has seen a significant transformation as a result of demonetization. The India has seen the emergence of huge start-ups and massive global investment. These entrepreneurs are using cutting-edge technology to provide smooth and creative financial services to both banked and unbanked people. Generally fintech industry in India operating on many themes but few of them and impact of demonetization thereon given below;

1. Payments of the Future
2. Blockchain In Financial Services (storing the financial data in decentralized database)
3. Robo-Advisory (services from man to machine)
4. Financial Inclusion (Jan Dhan Yojana)
5. Security and Biometric (e-kyc)

Following demonetization, the Indian payments sector has seen a lot of discoveries and development thanks to the fantastic measures taken by regulators and banks. The widespread acceptance of online payments aided the movement's success. NPCI's Immediate Payment Service (IMPS) technology is being used by several major banks to build their own digital wallets. These

digital wallets have social media capabilities built in. SBI's Buddy and Axis's LIME are two examples. Indian government has taken important measures in the direction of achieving the Cashless Bharat vision as: Launched UPI (Unified Payment Interface), a mobile-to-mobile money transfer mechanism. Within three to four months of demonetization, digital payments skyrocketed.

As per RBI Report "Table 3: Growth in Digital Modes of Payments" (RBI, 2017)

Category	Volume in million and value in Rs. billion				Change (%)		
		NOV-16	DEC-16	JAN-17	FEB-17	FEB-17 over NOV-16	FEB-16 over NOV-15
NEFT	VOLUME	123	166	164	148	20.4	10.4
	VALUE	8808	11538	11355	10878	23.5	14.3
	AVERAGE TICKET SIZE	71583	69376	69159	73397	2.5	3.5
CTS	VOLUME	87	130	118	100	15.3	18.0
	VALUE	5419	6812	6618	5994	16.6	19.2
	AVERAGE TICKET SIZE	62236	52395	55873	59677	-4.1	1.1
IMPS	VOLUME	36	53	62	60	65.2	25.1
	VALUE	325	432	491	482	48.5	23.2
	AVERAGE TICKET SIZE	8982	8183	7870	8071	-10.1	-1.4
UPI	VOLUME	.3	2.0	4.2	4.2	1346.1	
	VALUE	0.9	7.0	16.6	19.0	2001.2	
	AVERAGE TICKET SIZE	3150	3565	3995	4577	45.3	
USSD	VOLUME	0.007	0.102	0.314	0.225	3091.9	
	VALUE	00007	0.104	0.382	0.357	4789.4	

Thus the next generation payments industry has been growing rapidly since demonetization, several payments startups up came into competition after the demonetization. The government of India and RBI had taken various strategies for expanding online Payments:

4.1 Government of India

There has been an increase in online transactions since the national denomination status of the old "500" and "1,000" notes was revoked. To increase the speed of the process, the union Government come out with the combination of benefit and steps on 8/12/2016, which encourage country's virtual and online economy. The steps are as follow :

- a) Consumers will be given an opportunity by the National Government Petroleum Public sector enterprises, who will receive a 0.75 percent reduction on petrol/diesel purchases if we make payment through online .
- b) To boost online payment in village areas , National Government would offer monetary support to qualifying banks through NABARD for the installation of "two point-of-sale" devices in each of "1 lakh villages" having a population of "less than 10,000 people".
- c) As per RBI report "Rural Regional Banks and Cooperative Banks to deliver Rupay Kisan Cards to 4.32 million Kisan Credit Card users, helping them to perform online transaction."
- d) Customers who pay for monthly or seasonally tickets using online methods will receive a refund of up to 0.5 percent through the railway's suburban railway network starting January 1, 2017.
- e) All railway travellers who purchase tickets digitally will receive a free unexpected insurance policy worth up to '10 lakh.
- f) Railways will grant a 5% discount to passengers who pay for paid services such as food, lodging, retiring rooms, and so on, through their linked entities/corporations.
- g) The National Government Institute and union Bodies will guarantee that processing payments ,cost related online payments are not put on to consumers, and that they bear all such costs. State governments and institutions are being told that transaction fees/MDR charges associated with online payments should be absorbed by them rather than the customer.
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- i) On "online transaction charges/MDR for transactions up to '2000 per transaction" no service tax is charged,
- j) According to RBI Report "Users will receive a 10% rebate after paying tolls at Toll Plazas on National Highways with a broadcast identification technology (RFID) card/Fast Tags in 2016-17. On December 15, 2017, NITI Aayog unveiled the schemes Lucky Grahak Yojana and Digi-Vyapar Yojana, which will provide cash prizes to customers and businesses that use online payment devices for consumption expenditure." The programme began on December 25, 2016, with the first draw, and will conclude on April 14, 2017, with a Mega Draw. The system focuses on small transactions (between \$50 and \$3000) made by ordinary people.

As per MCA report "Lucky Grahak Yojan for the 15000 Consumers where they get every day reward of ` 1000 for a period of 100 days and,"

4.2 The Following measures taken by the RBI

- a) 10,000/- to 20,000/ increased with the limit of "Prepaid Payment Instrument" (PPI) with minimum information.
- b) Opening of a new type of "Prepaid Payment Instrument" for marginal traders that is self-declared and has a highest value of twenty thousand(20000) , at any given time.
- c) From January 1, 2017 until March 31, 2017, the dealer discount rate (MDR) was simplified for payments up to two thousand (2000).
- d) From January 1 to March 31, 2017, customer charges on Immediate Payment Service (IMPS), Unified Payment Interface (UPI), and USSD-based *99# platform transactions up to 1000/- were waived.
- e) As per RBI report "National Payments Corporation of India (NPCI) has received in principle clearance for the launch of the general App for UPI (BHIM App), design improvements in USSD *99#, and the general App for facilitating Aadhaar-based commercial payments (Aadhaar Pay)."
- f) NPCI has received in-principle clearance to establish the "National Electronic Toll Collection (NETC) Pilot System", which will give permission for toll payments .

Corrective measure :

- (i) As per report "All authorized card networks have been recommended to standardise the rapid response (QR) code to allow transaction compatibility utilising this technology. On February 20, 2017, the interoperable QR code (Bharat QR) was launched."

- (ii) As per Report "All permitted banks comes with the PPIs in the country have been urged to conduct a specialised inspection by CERT-empanelled IN's auditors as soon as possible and take prompt action to comply with the audit report's conclusions."

Conclusion

The demonetization adversely impact the mostly all sectors of Indian economy except financial technology industry. But after the some short period of time it seem like healthy movement for Indian economy and comparative GDP also increased and it was good signal for the Indian Economy. After the demonetization the Fintech industry rapidly increased and it's provided the aid for the cash less vision of Indian Economy. According to the Honourable Prime Minister of India Mr Narendra Modi ,If you want an effective and accountable government, you also needs to be fair in your duties and responsibilities. Honesty is a two-way street. Thus demonetization movement created enthusiasm in people and they adopted the digital payments method and resulting huge growth in the financial technology industry of Indian Economy.

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