



**ORIGINAL RESEARCH PAPER**

**Commerce**

**Impact of Demonetisation on E-commerce**

**KEY WORDS:** Demonetisation, E-commerce, cashless economy

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**ABSTRACT**

Indian Economy has been facing the problems of black money and corruption. To fight against them Indian Prime Minister “Shri Narendra Modi” announced the policy of Demonetisation on 8th November, 2016. The currency notes of Rupees 1000 and 500 were withdrawn from circulation and new notes of rupee 2000 denomination was introduced. The article studies the impact of demonetisation on E-commerce. The study concludes that demonetisation will help the e-commerce industry and insist or encourage the people to use less cash transactions in day to day life, and to carry the money in currency form for any purchases. Thus this move will bring about positive changes in Indian Economy and will prove huge boon for the digital payment market.

**Introduction**

Demonetization is the act of stripping a currency unit of its status as legal tender. It is a process of removing a currency from general usage or circulation of money in a country. Demonetization is an act where the old unit of currency gets retired and replaced with a new currency unit. It can also be considered as withdrawal of a specific currency from market.

Along with 1000 currency notes 500 rupee notes were also withdrawn from circulation. For the old 500 currency notes, new 500 rupee notes were issued and a new currency note of 2000 denomination was introduced in the economy. New currency notes issued to the public through commercial banks and post offices across India by depositing the demonetised currency notes by the people.

Demonetization has been a deep psychological strike on black money. Demonetization step has killed the very motivation of those people who have the ability to generate black money. A person who had black money has already paid more than the effective tax rate just to convert his black money into legally tender-able currency/assets.

**Evolution of Currency in India**

Before looking in to the demonetisation we need to peep in to the evolution of paper currency in India. Untill the 18th century, silver and gold coins were commonly used in India. With the establishment of European trading companies, their own banks in the region such as Bank of Hindustan in Calcutta began issued the very first version of Indian paper notes. After the paper currency act of 1861, the British colonial government got involved in producing the paper currency which is known today as well.



**Demonetisation In India**

The sudden move to the demonetisation is not happened first time. Historically, previous Indian governments had demonetised bank notes. In January 1946, banknotes of Rs 1000 and Rs 10000 were withdrawn and new notes of Rs. 1000, Rs 5000 and Rs 10000 were introduced in 1954. These notes were again demonetised on January 16, 1978 as a means of curbing counterfeit money and black money. In 2012, the Central board of direct Taxes had recommended against Demonetisation, which stated that “demonetisation may not be the solution for tackling black money in the economy which is largely held in the form of benami properties, bullion and jewellery”. In 2016, the annual

report of Reserve bank of India stated that the total bank notes in circulation counted to be 86% of the country’s cash supply. In 2016, strict rules were put in place to curtail benami transactions. During the same period, a scheme to declare black money was introduced. The government of India devised an Income declaration Scheme (IDS), on June, 2016 and ended on September 30, 2016 so as to declare the black money and thus paying the taxes. Time to time with the announcement of various policies and programs such as Make in India, Start – Up India and Stand – up India, India emerged as the bright spot in the global economy and the preferred destination for investment. However the problems of black money and corruption have been plaguing the economy.

In the historical move to fight against the evils of black money, corruption, money laundering, financing of terrorists and counterfeit notes, the government of India decided to withdraw the legal tender of Rs 500 and Rs 1000 banknotes. The banknotes of Rs 100, Rs 50, Rs 20, Rs 10, Rs 5, Rs 2 and Rs 1 remained as legal tenders and thus was unaffected by the decision of the government.

**Objectives of Demonetisation**



**Demonetisation and its impact on E- Commerce**

E -Commerce has transformed the way business is done in India. The E- Commerce industry offers the power to create innovative, sustainable, consistent and seamless shopping experience across all the channels. China is the largest market for E- Commerce globally, followed by the U.S, but it is India that is the fastest growing E – commerce market.

According to a Report by Global Payments firm World Pay, "Indian e-Commerce market is set to overtake the U.S and become the second largest in the world in less than two decades growing head to head with China.

The Indian Government sudden and unprecedented move on November, 2016 to take high value currency notes out of the circulation set the Indian economy in tizzy. Demonetisation created a huge cash crunch in the economy and eliminated 86% of the currency in circulation. 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. The effects of the demonetisation were seen at an individual level as well as industry level. Its impact was major on online shopping and the radical effects of demonetisation were seen on the emerging sector of E-Commerce.

### Online Shopping payment trends in India

Online stores offer a wide variety of payment options like credit/debit cards, net banking, e-wallets and cash on delivery (COD).

According to Ernst & Young, payment for 50 per cent to 80 per cent of online transactions in India is through cash on delivery. In Comparison with other countries, e-commerce in India has always been more dependent on Cash on delivery (COD). Flipkart was the first among the three major e-commerce players in India to push COD. In 2015, 72 per cent of Flipkart's orders were COD. Amazon and Snapdeal were also among others who focussed on executing COD orders. After demonetisation these Ecommerce companies faced consequences with the cancellation of the orders due to non payment of cash. With the cash crunch and cap on ATM withdrawal limits buying capacity of majority of consumers was affected. However, this short term disadvantaged lasted no longer and resulted in the use of the digital methods such as net banking, debit cards, credit cards and thus led to the growth of digitalisation. Demonetisation 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-demonetisation. According to this report, digital payments have seen a massive boost in the very first month following demonetisation. 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 demonetisation. Transactions via RuPay cards have also increased suggesting that more JanDhan account holders have started using debit cards for online transactions. "We saw an initial decline in transactions for the first 10 days of demonetisation, however the transactions started getting back to normal from first 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 [Coupnz Guru](#).

Despite bringing chaos in its initial days, demonetisation 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. The demonetisation has mainly affected the 4 main segments of the e-commerce industry.

Online Retail - Online retailers like Amazon and Snapdeal had seen a 30 per cent-40 per cent reduction in COD orders. The final quarter of 2016 was not as fruitful as in the last years for giants in the e-commerce industry. The consumer was not in a mood to spend and this situation continued 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. With the variety of the digital payment options, now people are switching to online retailing.

### Payments

The digital wallet and payment segments has become the popular

mode of payment after the demonetisation. Local vegetable shops and small vendors have been using 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.

### Logistics

As the demonetization move has pushed the economy to a cashless one, it is apparent that there will be a paradigm shift from COD to card payments and online transactions. The decision to go cashless has been a boon for the logistics sector as well. A Digital India is the smart solution for driving the logistics industry to go cashless and will require some time to scale up their operations

### Hyper-local Delivery

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 day by day and there is a growth in pre-paid orders. Online food-ordering platforms like Swiggy and Zomato have seen a rise in transactions. This sector in the e-commerce industry has seen tremendous growth post demonetisation.

"The move has also seen a large number of first-time customers moving to buy grocery online. The impact is more due to the ease of using online payments for the 'already online' shopper." Sreedhar Prasad, partner for e-commerce at KPMG.

### Conclusion

E-commerce is an emerging concept and which is creating a new economic model. E-commerce will have positive impact on economic society which has numerous social benefits - the cost of running an e-commerce business is very low when compared with running a physical store; there is no rent to pay on expensive premises; and the business processes are simplified and less man-hours are required to run a typical business smoothly. The crucial step of demonetisation taken by the government will help the e-commerce industry and insist or encourage the people to use less cash transactions in day to day life, and to carry the money in currency form for any purchases. It will also help the banking sector to expand the business to rural areas quickly and will fulfill the objective of financial inclusion in the coming years. Lower inflation, lower interest rates and lower budget deficits are likely to be the long term positive macroeconomic effects of the move, which will stimulate economic growth and benefit businesses in the region. However, as the country undergoes this huge

transformation from a cash dominant economy to a near cashless economy, will help to strengthen the economy by wiping out black money and fake notes. While e-commerce companies that see a huge chunk of payments happening through Cash on Delivery mode will face some challenges in the initial days and will be requiring the strong support of the government, but in the long run this move will bring about positive changes and will prove huge boon for the digital payment market.

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