

# Demonetization: A Push to Mobile Wallet Industry

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**Abstract-** The Indian m-wallet industry has reported a tremendous growth in the recent years and is presenting ample opportunities to the industry players. Demonetization has escalated the awareness regarding the different payment methods among consumers resulting in Indian m-wallet market reaching a different level. Demonetization in India has proved as a lucrative opportunity for m-wallet players; these companies got flooded with millions of transactions and amplified the number of users. The average wallet spending for retail transactions was about INR 500-700 prior to demonetization and now this figure has increased to INR 2,000- 10,000.

The paper talks about how demonetization has benefited m-wallet as well as mobile banking industry in India. It also focuses on how cash is still predominant in Indian economy and the market dynamics that act as catalysts towards boosting the industry's growth. It further highlights the competitive landscape of the Indian m-wallet market and its sources of revenue generation.

## INTRODUCTION

Demonetization is an act of discarding a currency unit of its status as legal tender. The current monetary form is drawn from circulation and superannuated, and swaps with new currency units. Its objective is to curb corruption, eradicating black money, prevent currency counterfeiting and use of high denomination currency for terrorist activities. Demonetization is an important as well as perilous move and many countries have carried out it in past. Some economies have failed miserably (North Korea, Ghana, Zimbabwe, Pakistan etc.) and some have reported triumph (USA, Australia and Britain).

In 1946, India carried out demonetization for the first time to curb black money and after its success the country declared the move again in the year 1978. In 1978 episode, value of demonetization was negligible (only 0.1% of GDP) and 68% of this was tendered back. But the impact of this exercise was huge when country carried it out for the third time in the year

2016 to curb black money, fake currency circulation and terror financing.

The government of India in November 2016 announced that INR 500 and INR 1000 notes would cease to be legal tender after the very next day. The cited currency accounted for 13% of GDP with 86% of value of notes in circulation. According to RBI, 97% of old notes which accounted to around INR 14.97 billion were deposited in the bank before within the period of 50 days ending December 31, 2016. This surprise and sudden action of the government shook the nation; the businesses came to halt as there was a major cash crunch in the economy.

## LITERATURE REVIEW

Demonetization has been an inquisitive issue since several past decades as it is a sporadic and significant strategy implemented by some countries in the past. The impact of 2016 demonetization in India has been studied by various researchers, academicians, bankers, economists and policy makers.

Kohli and Kumar (2016), talked about the government's claims on the fruits of "demonetization" of INR 500 and INR 1,000 notes. The five claims—fighting terrorism, "black money," gaining fiscal space, reducing interest rates and formalizing informal economy were scrutinized from economics perspective. The paper concluded that there were no coherent reasons given by the government for the conception and implementation of the demonetization scheme. The authors futile government's claims by studying various government's, banks and RBI's reports. In summary, they analyzed that there would no significant unearthing of illegal cash as expected by demonetization; it would only halt or slow down illegal cash-based operations for a while.

The impact of demonetization on the various payment methods in India was examined by Tanya Sanatani (2017). Her research paper aimed to see

how the various digital platforms have evolved with the advent of demonetization. According to the paper, demonetization resulted in proliferation of software industry in India; people have started adapting technology and becoming comfortable with the digital world. However, digital payment system has its own concerns and the major one is security, experienced hackers can get hold of the valuable information on the phone, which possesses a serious risk to the consumers.

Dhamija and Dhamija (2017) attempted to analyze the impact of demonetization on payment modes used by the customers for online shopping and the growth rate of products purchased through e-commerce websites before and after demonetization. The authors described in detail about the changes in the segments of e-commerce industry pre and post demonetization. The paper concluded that demonetization has proved a huge boon for digital payment market as it has resulted into shifting majority of the population to debit card and mobile wallet to make payments.

A study was conducted by Prajapati and Singh (2017), on short term as well as long term aspects of factors affecting/influencing the usage of online transactions. The paper also talked about the reasons of substantial increase or decrease in digital transaction system after demonetization. Challenges and the future prospects of demonetization that can impact the growth of an economy have also been highlighted. They concluded that demonetization has turned positive for online and other alternative modes of payments, especially mobile wallets. They are optimistic that digital transaction systems, e-wallets, apps, e-banking, plastic money (debit and credit cards) will certainly see significant increase in demand.

#### RESEARCH METHODOLOGY

The data has been gathered from various sources like Telecom Regulatory Authority of India (TRAI); National Payments Corporation of India (NPCI); Internet and Mobile Association of India (IAMAI); Department of Telecommunications (DOT); Reserve Bank of India (RBI); World Bank and Company Annual Reports. The time period of this study is from FY 2013 to FY 2018. This period witnessed a major change in currency circulation in India and the

sudden boost of m-wallet industry, primarily due to demonetization in 2016.

I have also carried out primary research, which involved extracting information through telephonic interviews, e-mails to various Business Development Heads, Agents and Distributors of m-wallets in India. In addition, I also interviewed users and conducted surveys to get an idea about the market trends.

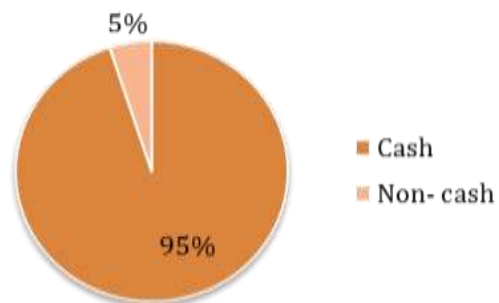
#### ANALYSIS

##### Current Scenario of Non-cash Payment Transactions

There is a tremendous interest among Indian policy makers, academicians and commercial enterprises to explore the possibility of moving towards a cashless economy. However, cash has always remained paramount form of transaction in India. Before demonetization in November 2016, cash accounted for 95% of the monetary transactions in the country, and as per PYMNTS Global Cash Index this number has increased marginally over the two years.

Demonetization has resulted in huge changes in cashless payment system for a while. Money supply dropped down suddenly at a sharp rate in November 2016; consequently, people started transacting through cheques, debit and credit cards. Many small and large merchants, street dwellers started accepting mobile wallet payments. This certainly flourished the non-cash transaction banking system in India in terms of volume; however the value of transactions changed marginally.

Figure 1 : Cash and Non-Cash Transactions, FY 2016



Source: PYMNTS

This is majorly because of the fact that the non-cash payment transaction system is still at a nascent stage in India. Majority of the retail market does not have POS (point of sale) installations to offer card-based payments. The retailers are reluctant about non-cash payments, and sometimes charge extra if payments

are being done through debit or credit cards which force consumers to shift back to the cash payments. The currency in circulation picked up a pace again when new currency notes of INR 500 and INR 2000 came into the market and people again started preferring transacting in cash. Money supply or currency in circulation in May 2018 has increased significantly as compared to the figure in the November 2016.

Source: Reserve Bank of India

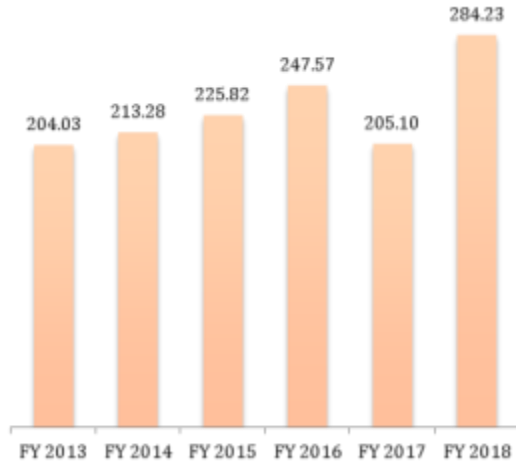


Figure 2: Currency Circulation FY 2013-18 (US\$ Billion)

Source: Reserve Bank of India

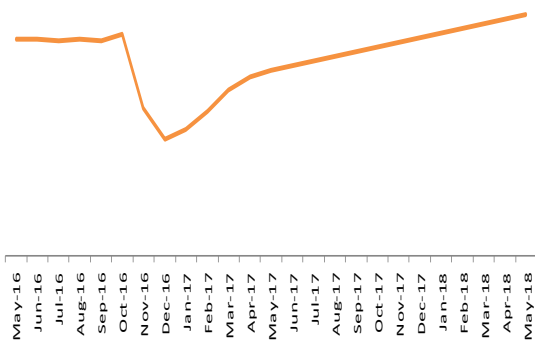


Figure 3: Currency in Circulation 2016-18 (Monthly) Mobile Payment Market Segmentation (Mobile Banking, Mobile POS, Mobile Wallet)

The Indian Mobile Payment market has been segmented into three categories for this study: Mobile Banking, Mobile POS (m-POS) and Mobile Wallet (m-wallet). In FY 2013, m-POS segment contributed the largest share of 91% in Indian mobile payment market. It includes transactions through debit, credit

or gift cards. Mobile Banking contributed 6% share, with over 53 Million transactions worth US\$ 1.02 Billion, with majority being money transfers. The remaining share 3% was contributed by the Mobile wallet service.

Source: Reserve Bank of India

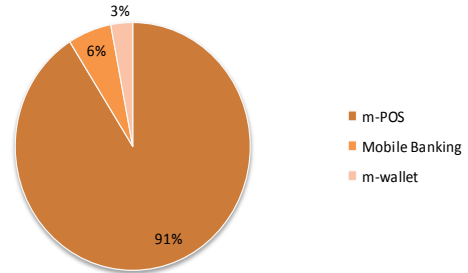
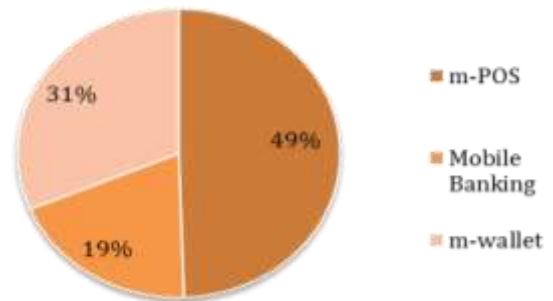


Figure 4: Mobile Payment Market: By Type of Payment, FY 2013

Source: Reserve Bank of India



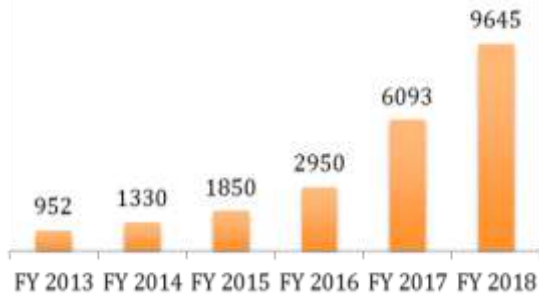
However, these numbers changed drastically from FY 2013 to 2018. The share of m-POS in m-payment market fell down to 49% in FY 2018. The primary reason for the sharp decline in the POS transaction volume is large number of population is switching to mobile banking and mobile wallet services because of its utter convenience and hassle of carrying cards every time. Increasing awareness among the consumers and increasing merchant tie-ups especially at very small terminals, such as Taxi, Bus, Auto, vegetable sellers etc have made the m-wallet market a prominent one.

#### Mobile Payment Transaction Volume

Mobile Payment is a transfer of funds in return for a good or service, where the mobile phone is involved in both the initiation and confirmation of the payment. The payment may be processed by credit cards or debit cards. M-payment is a crucial driver for the growth of the e-commerce industry in India. People can shop online; book movie tickets, rail or

flight tickets; and pay their bills by making m-payment through their debit and credit cards.

Source: Reserve Bank of India



M-payments have been available in India since 2010 and are majorly driven by the increase in smartphone and tablet users, low mobile tariffs, affordable handsets and penetration of internet. Nonetheless, trust and security issues have remained as the major roadblocks for the industry. The industry has reported a growth of 59% during the period FY 2013-18.

**Mobile Payment Transaction Value**

The future of mobile payments in India depends largely on the payments bank license, which is provided by the RBI. Both telecom operators and third party payment service providers have to apply for the license. Also, RBI to gain the trust of consumers, has given a mandate to all the banks to provide a 6-digit numeric One Time Password (OTP) that is used to authenticate every credit/debit card transaction on mobile. An OTP can be used only once. So for every mobile transaction, a new OTP is generated. Further, there is an increased penetration of debit and credit cards, as the banks have started issuing credit cards at a very low rate of interest. This coupled with the apparent benefits of these cards have added to the growth of mobile payments in the country.

Source: Reserve Bank of India

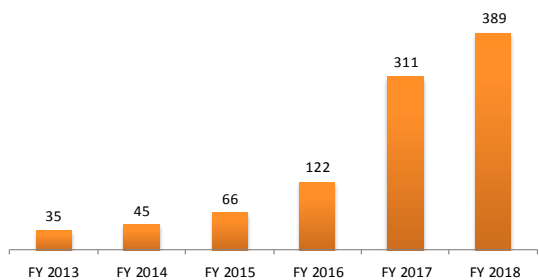


Figure 7: Transaction Value of Mobile Payment Market, FY 2013-18 (US\$ Million)

**Mobile Wallet Industry**

Mobile wallet is a virtual prepaid instrument provided by certain service providers, wherein people can load a certain amount of money which can be spent at online and offline merchants listed with the mobile wallet service provider. This digital payment service works as a cashless payment service, wherein people do not have to pay cash or swipe their debit or credit card at offline merchants.

Table 1: Types of Prepaid Instrument (m-wallet) at Glance

	Closed PPI	Semi-Closed PPI	Semi-Opened PPI	Open PPI
Entities Allowed to operate	Banks, NBFC, Other entities	Banks, NBFCs and other entities	Only Banks	Only Banks
KYC Required	No	Not Mandated	Yes	Yes
Maximum Amount that can be stored in PPI by card holder	INR 10,000	INR 10,000 (without KYC) INR 50,000 (with KYC)	INR 1,00,000	INR 1,00,000
Examples	Life style gift card, Metro Card, Flipkart Wallet, etc.	Oxygen, Paytm, Mobikwik, etc.	Gift cards by Axis bank, Food card issued by HDFC Bank, etc.	Vodafone M-pesa

**Revenue Generation Model of m-wallet Companies**

*Commission Income from the Sale of Recharges:* The companies facilitate recharge of mobile phones, utility bill payments; and earn commission for these services.

*Commission Income from Merchants:* This income is recognized when the services are rendered to the merchants of the company with respect to the value of transactions done by users of the company’s wallet on the respective merchant’s website.

*Onetime Setup Fees from Merchants:* This income is recognized when the services are rendered to the merchants of the company with respect to registration of the merchants’ on the website of the company.

*Interest Income:* This income is recognized on accrual basis on a time proportion basis at the applicable rates of interest.

*Income from Forfeiture of Unused Users' Wallet Balance:* This income is recognized when the user amount is forfeited.

**m-wallet Transaction Volume and Value**

The Indian m-wallet market is growing tremendously, backed by factors such as the rise in the usage of smartphones, increased penetration of mobile internet in the country and increasing disposable incomes. The market has witnessed promising innovations, and has grown immensely over the past few years. A wide variety of m-wallet providers exist in the market, with the important ones including Paytm, Oxigen, Movikwik, Airtel Money, etc. Research and Innovation towards discovering more efficient and convenient ways of doing m-wallet transactions is at its peak, and it is expected that the industry will overcome all the current limitations and evolve itself through several novel advancements.

Source: Reserve Bank of India



Figure 8: Transaction Volume of m-wallet, FY 2013-18 (Billion)

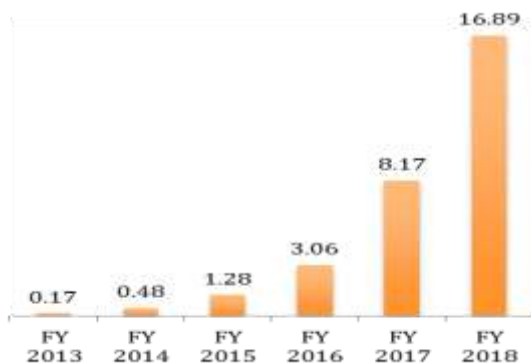


Figure 9: Transaction Value of m-wallet, FY 2013-18 (US\$ Million)

Mobile wallet is relatively a new concept in India, and has gained popularity in a very short span of time. It has proven to be extremely useful for transferring money from urban areas to rural areas, even without using a bank account. Mobile wallet users enjoy greater flexibility in making secure payments. Furthermore, those who do not have a credit card or a debit card can go to their nearest wallet recharge kiosk, and get their wallets loaded against cash.

**Industry Dynamics**

Drivers	Roadblocks
Rise in Mobile Internet Users	Consumer Mindset/ Lack of Awareness
Rise in Usage of Smartphones	Competition from Debit/Credit Cards
Huge Cash backs and Discount	Compatibility Issues
Ease & Convenience	

**Competitive Analysis of Industry Players**

The Indian m-wallet market is highly competitive, in spite of significant low penetration. As of June 2018, there are over 45 mobile wallet companies in India. Collaboration of m-wallet companies with merchants to attract consumers has become a new trend in the market. m-wallet is not only restricted to online portals, it is spread across the offline physical stores as well. For instance, Mobikwik recently tied up with Big Bazaar, Café Coffee Day (CCD), Archies, Mobiliti World, and others to make payments by just one click. The market is highly dynamic in nature with a heavy importance given to money transfers and recharges/bill payments. Over 30% of the market is captured by money transfers, which includes wallet to wallet money transfers and wallet to bank transfers.

Indian m-wallet market consist number of highly competitive players. In terms of the total user base; Paytm is the leading company with 300 Million registered users (80 Million active users) and with huge market place for buyers and sellers. However, there is no clear leader in the mobile wallet market as different companies offer different services. Many organizations are involved in rendering m-wallet services, ranging from spin-outs and other small start-ups through to large multinationals. Companies, like Mobikwik and PhonePe are considered to be the leading companies in the market with 45 Million and 21 Million and users respectively.

Nearly two weeks after the demonetization move, Paytm announced that it was processing over 7 Million transactions in a day, surpassing the number of credit and debit card transactions that are done in India. Also, cash in the e-wallets that people keep have grown by 1000% and average number of transactions too has gone up from 3 to 18. It's Gross Merchandise Value (GMV), which is an industry term for estimating the total worth of goods sold through a digital platform, for has increased from US\$3 Billion to US\$ 5 Billion.

### CONCLUSION

Demonetization was a major and bold step taken by the Modi government; it had impacted all the industries across the nation directly or indirectly. The primary objective of this major step was to reduce the unaccounted money and in order to achieve it, many industries flourished tangentially. One such industry was m-wallet, demonetization has opened new doors of making payment for consumers for all the services and this has also helped in rising awareness about digital payments as a whole among consumers. However, the impact was overwhelming only in the short run as the cash crunch in the economy forced people to switch to non-cash payments even for smaller transactions.

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