Demonetization : Unpacking the Digital Wallets

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Abstract

On Nov. 8, 86% of India's currency was nullified in a great demonetization effort that aimed to clean out the black market's cash supply and counterfeit notes which completely disrupted the social, political, and economic spheres of the 'worlds second largest emerging market. All 500 and 1,000 rupee notes were instantaneously voided, and a 50 day period ensued where the population could redeem their cancelled cash for newly designed 500 and 2,000 rupee notes or deposit them into bank accounts. India has done this before. In 1946, all 1,000 and 10,000 rupee notes were recalled. In 1978, 1,000, 5,000, and 10,000 rupee notes were demonetized. In the days following Modi's announcement, the banks didn't have enough of the newly designed banknotes on-hand to distribute in exchange for the cancelled notes, and there simply wasn't an adequate supply of smaller denominations in circulation to run the cash economy. This could be the opportunity for e-wallet, companies to flourish and increase their customer base. For safe and fast transactions e-wallet are emerging as an alternative to cash.

Keywords: Black money, Demonetization, E Wallet, Digital.

I. INTRODUCTION

The interesting side effects of India's demonetization plan is more & more people are going for Digital payments, the value of Internet banking, Debit card & Credit card, Mobile banking are going high. The demonetization plan initially paralyzed the economy is now catalyzing the country's digital payments ecosystem which is driving Indian economy towards the cashless economy. Out of a world population of 7 billion, over 5 billion or 70% have a mobile phone, whereas only 2 billion or 30% have a bank account. In India: 800 million have a mobile phone and only 250 million have a bank account.

Consumers are increasingly using their mobile phones to make digital payments (Digital India Summit 2015). There is huge contribution by Digital wallets in Digital payments right now. Let's understand What is this Digital wallet? How it works?

II- DIGITAL WALLET:

Digital wallet is the digitalized version of traditional leather wallet to safe keep your money, credit card, PAN card etc. it is also sometime called as a digital wallet. Digital wallet is a software application commonly used for mobile phones, tablet Personal computer that act as electronic version of physical wallet which provides a convenient & secure execution of online payment.

In India, e-wallet comes under the legally recognized term - "Pre-paid Payment Instruments". Pre-paid Payment Instruments (PPIs) are defined in the RBI Guidelines issued under the Payment and Settlements Systems Act, 2005."As payment instruments that facilitate purchase of goods and services, including funds transfer, against the value stored on such instruments. The value stored on such instruments represents the value paid for by the holders by cash, by debit to a bank account, or by credit card. The pre-paid instruments can be issued as smart cards, magnetic stripe cards, internet accounts, internet wallets, mobile accounts, mobile wallets, paper vouchers and any such instrument which can be used to access the pre-paid amount".

DOI : 10.21904/weken/2016/v1/i4/109112

III- TYPES OF E WALLET:

As per the Reserve Bank of India, companies with minimum paid-up capital of Rs. 500 lakh and minimum positive net worth of Rs. 100 lakh are permitted to issue wallets in in India. There are three kinds of e-wallets.

1. *Closed Digital wallets:* RBI approval is not required for issuing a Closed Digital wallet these are wallets issued by an entity for facilitating the purchase of goods and services from it. These instruments do not permit cash withdrawal or redemption.

E.g. Cab services like OLA payment e-commerce Flipkart, amazon, Jabong, Snap deal and Make My Trip etc. And mobile companies create e-wallets for making payments towards purchase of products from them /for usage of their services.

2. *Semi-Closed Digital wallets:* These are wallets which can be used for purchase of goods and services, including financial services. These wallets do not permit cash withdrawal or redemption by the holder. Eg. Air Tel Money, which is used for making payments for a range of services like money transfer from Airtel Money to another bank account or any other Airtel Money Wallet or paying select utility bills.

After the demonetization of high-value currency the limit of semi-closed Prepaid Payment Instrument (PPI) that can be issued has now been enhanced from Rs 10,000 to Rs 20,000 by RBI.

3. *Open Digital wallets:* These are wallets which can be used for purchase of goods and services, including financial services like funds transfer at any card accepting merchant locations [point of sale (POS) terminals] and also permit cash withdrawal at ATMs / Banking Correspondents (BCs). However, cash withdrawal at POS is permitted only upto a limit of Rs.1000/- per day subject to the same conditions as applicable hitherto to debit cards (for cash withdrawal at POS).

E.g. M-Pesa is an open wallet run by Vodafone in partnership with ICICI Bank. Axis Bank's e-Wallet Card', can used for making payments on sites that accept Visa cards, with a minimum limit of Rs 10, and a maximum limit of Rs 50,000, and a validity of 48 hours.

IV- OVERVIEW OF DIGITAL WALLET MARKET IN INDIA.

In India PayTM, PayUMoney, Mobikwik, Citrus, State Bank Buddy. Citi Master Pass. ICICI Pockets, HDFC Chillr, LIME are the top digital wallets in India. According to a recent report from TechSci Research titled 'India Mobile Wallet Market Opportunities and Forecast, 2020', the Digital wallet market in India is projected to reach $6.6 billion by 2020.

In this segment, the highest, 38 per cent market share is captured by money transfer businesses, followed by recharge and bill payments, and utility areas by 30 per cent and 12 per cent, respectively.

Line Asia, American Express and Cisco. Mobikwik raised around $30 million from investors including Sequoia Capital, Tree, Chinese e-commerce major Alibaba Group and Ant Financial have invested more than $650 million in One Communications that runs Paytm wallet. Citrus Payment Solutions has also raised funds from Sequoia Capital and Ascent Capital. Snapdeal had purchased Digital wallet player Freecharge for about $400 million in April 2016.

Aditya Birla Group's food and grocery retail arm 'More' and Paytm have partnered to offer wallet to make payments for their food and grocery purchases across 500 stores in 137 cities.

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V- DIGITAL WALLETS: PRE & POST DEMONETIZATION.

Indian economy is cash based economy. Digital wallet/E- Wallet companies realize they have struck a gold mine and are pushing hard for consumers to adopt their service. But after the announcement by Honorable prime minister on 8th of November the cash based economy moved toward the cashless economy & Digital wallet companies have seen record hit in payment transactions.

Paytm, the largest Indian digital payment wallet with more than 100 million users and 2 million transactions a day, saw app downloads going up by three times and payments for offline transactions by five time in the first two days after the announcement of the demonetization. There was a 100% growth in users & downloading the app on smartphones. MobiKwik claims to have seen an 18X increase in overall transactions, and over 2000 percent increase in transaction value. Ola Money witnessed over 1500 percent increase in recharges. Razor Pay had over 150% increases.

Aspects that count

The digital payment industry will be driven by the following factors:

1. Tapping into the untapped market i.e. unbanked area unbanked families. (more than 145 million).

2. A focus on providing merchants with multichannel payment services

3. Wallet payments through Near Field Communication (NFC)

4. Tokenization, biometrics — because mobile devices will be a mainstream option for person-to-person or person-to-business payments

5. Financial inclusion: a wallet that can cater to this will definitely rule the Indian market

6. Analytics solutions – payments transaction data analytics will be a major source of payments-related revenue.

VI- CHALLENGES FOR DIGITAL WALLETS & ITS PROVIDERS:

a) Lack of a universal technology standard, disparate interests of stakeholders, and poor user experience, have severely limited adoption and growth.

b) The biggest hurdle for digital wallets has been the lack of NFC-enabled terminals.

c) Concerns on security still remain. The wearable wallet will need to bundle payments with non-payment services such as coupons, loyalty, or digital receipts to create strong value for consumers other than just the gizmo geeks.

VII- CONCLUSION

Demonetization leads to the beginning of the end of the battle for digital wallets & its providers. Merchants, consumers, and the market ready for mass adoption of digital wallets. By this time next year, we will have our own leader in Digital wallet industry. I expect the duopoly leaders in mobile operating systems and the largest financial institutions and cellular carriers will articulate and dominate next generation digital payments in short order.

DOI : 10.21904/weken/2016/v1/i4/109112

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DOI : 10.21904/weken/2016/v1/i4/109112