



Exploring the Consequences of India Demonetisation

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Demonetization or Remonetization

- I have been asked to deliver some lectures while i am visiting at MRIU.EDU.IN.
- My thoughts are to focus on demonetization or remonetization as they like to promote it in India.
- My focus is to explore with current discussion and students: What it is? Why do it? The effects?
- Then move on to look at related issues such as the: digital economy, cashless society and other implications (society, consumer behavior, firms, globalization).
- Some cases I would like to build from include: NZ Eftpos, NZ GST and digital currency like BITCOIN.

WHAT?

WHY?

EFFECTS

SUNDAY
15 JANUARY
2017

INDIA
DEMONETIZATION
(REMONETIZATION)
MRIU. EDU. IN
PROF. LECTURE
SERIES

DIGITAL
ECONOMY

CASHLESS
SOCIETY

IMPLICATIONS
→ SOCIETY
→ CONSUMERS
→ FIRMS
→ GLOBALISATION

CASES
→ N2 (CRYPTOS)
→ N2 (GST)
→ BITCOIN

Agenda

- Lecture Session 1: What is Demonetization or Remonetization?
- Lecture Session 2: Why Demonetization or Remonetization?
- Lecture Session 3: The Effects of Demonetization or Remonetization?
- Lecture Session 4: Evolving Issue – Cashless Society?
- Lecture Session 5: Evolving Issue – Digital Economy?
- Lecture Session 6: Evolving Issue – Implications?
- Lecture Session 7: Case Example - EFTPOS

Lecture Session 1: What is Demonetization or Remonetization

- India's Demonetization: Explained (<https://thearcmag.com/indias-demonetization-explained-6092a70d964d#.1xtf5ifcg>)
- In the United States, 40% of transactions involve cash. That's a larger share of economic activity than debit cards (25%) and credit cards (17%), yet hardly indispensable.
- India: cash is used in 90% of transactions. Further, in this economy, 86% of the cash in circulation exists in the form of two banknotes, the 500 (roughly \$7.5 USD) and 1000 (roughly \$15 USD) bills.
- November 8, 2016 India's Prime Minister, Narendra Modi, gave a surprise address in which he announced the demonetization of the 500 and 1000 rupee notes.
- Modi announced the creation of a new 500 and 2000 rupee notes. These new bills went into effect on November 10.
- India has done this before: 1946 and even 1978.
- IMF and World Bank, India is projected to be the sixth largest economy in 2017.
- Your thoughts?

Lecture Session 1: What is Demonetization or Remonetization

- Wade Shepard, writing for Forbes, describes the impact of demonetization thus far:
 - “Modi’s demonetization initiative caused a sudden breakdown in India’s commercial ecosystem. Trade across all facets of the economy was disrupted, and cash-centric sectors like agriculture, fishing, and the voluminous informal market were virtually shutdown, with many businesses and livelihoods going under completely—not to mention the economic impact of millions of people standing in line for hours to exchange or deposit cancelled banknotes rather than working or doing business.”
- Do you agree?

Lecture Session 2: Why Demonetization or Remonetization

- India's Demonetization: Explained (<https://thearcmag.com/indias-demonetization-explained-6092a70d964d#.1xtf5ifcg>)
- Justifications, including
 - (a) eliminating black money;
 - (b) reducing the prevalence of counterfeit currency, which is allegedly used to fund terrorism against India itself; and
 - (c) curbing corruption and criminal activity of various kinds that have been facilitated by the 500-rupee and 1000-rupee banknotes.
- India has a large amount of what is known as “black money,” meaning cash or any other form of wealth that has evaded taxation.
 - According to a 2010 World Bank estimate, the most reliable available, the shadow economy in India makes up one-fifth of the country's G.D.P. (A 2013 study by McKinsey, the consulting firm, puts the figure at more than one-quarter.)

Lecture Session 2: Why Demonetization or Remonetization

- Black money tends to exacerbate inequality because the biggest evasions occur at the top of the income spectrum. It also deprives the government of money to spend on infrastructure and public services like health care and education.
 - According to the World Bank's most recent estimate, from 2012, India's tax-to-G.D.P. ratio is about 11 percent, compared with about 14 percent for Brazil, about 26 percent for South Africa and about 35 percent for Denmark.
- Amartya Sen, the Nobel-winning Harvard economist, has said that "only an authoritarian government can calmly cause such misery to the people."
 - Sen's point in calling Modi's government "authoritarian" is that it is an authoritarian move to eliminate the trust embedded in the protection of currency stability. The people expect the government to protect their bills, not to destroy them.

Lecture Session 3: The Effects of Demonetization or Remonetization?

- Lets focus on the long term implications.
- Key questions to discuss about the future:
 - The move towards a cashless society in India.
 - The evolution of a purely digital economy, markets and business.
 - The changing behaviour of:
 - Society
 - Consumers
 - Firms

Lecture Session 3: The Effects of Demonetization or Remonetization?

Simple change in bank notes. Why?

- Ten reasons why NZ's Reserve Bank has invested in 'bright' new banknotes, ROB STOCK, October 14 2015, (<http://www.stuff.co.nz/business/money/72928410/Ten-reasons-why-the-Reserve-Bank-has-invested-in-bright-new-banknotes>)

1. Budgeting

- Electronic spending is ever more frictionless and the banks and credit card companies have been actively trying to reduce cash use.
- "Contactless" payments allow credit card users to avoid even having to put in a PIN to make purchases under \$80. That makes it ever easier to fritter money.

2. Squirrelling

- A survey in 2010 by the Reserve Bank found that only a small percentage of notes were stored in people's homes, but even at about 9 per cent, it was still hundreds of millions of dollars of notes.
- There can be many reasons for keeping cash at home, including fear of banks collapsing, or as part of an emergency survival kit.
- Low interest rates on deposits reduce the opportunity cost of holding cash, which may have contributed to the recent growth in notes demand, Hayr says.
- The rise in the proportion of \$50 and \$100 in circulation indicates cash is being hoarded by households. In 2013 there was \$1.6 billion of \$100 notes in the hands of the public. In 2015, there was \$1.8b. There was a similarly large leap in \$50 notes in the hands of the public.

3. Avoiding surcharging

- The credit card companies want us to use our cards for everything, but judicious use of cash use can save money. Use a credit card in a taxi or in a car park ticket machine, and you end up paying a surcharge.

4. Crime

- Back in 2010, a survey of cash use by the public could only identify the use for about 40 per cent of the banknotes in the hands of the public. That suggests a lot of cash is being used in the "black" economy.
- Cash is anonymous, which makes it an ideal means of transacting for those who are doing something they do not want the authorities to be able to track. Take drugs, for example. Nobody really knows how much the drugs economy is worth.
- In 2013, a survey suggested 11 per cent of adults had used cannabis. They are unlikely to have used eftpos to pay for it. Cannabis is just one illegal drug, and selling it is just one of the crimes in which both parties to the transaction may prefer to take place outside of the formal banking system.

Lecture Session 3: The Effects of Demonetization or Remonetization?

Simple change in bank notes. Why?

5. Tax avoidance

- The "grey" economy is the term for economic activity that happens outside of the tax system. Paying for something in cash can result in a business deciding not to run the job through the books, enabling it to avoid paying company tax, and the purchaser to avoid GST.
- 6. Legal anonymity
- There are many things you may want to buy you would not want to appear in your bank statements.
- Cash can help keep your trips to the TAB, prostitutes, strip clubs, pub, etc, off of your bank statements. Paranoia may also drive some to prefer making purchases in cash. The taxman can't then track your movements so easily.

7. Christmas

- Cash use spikes at Christmas. Retail spending rises at this time of year. Grandparents sticking banknotes into Christmas cards for the grandchildren, and Christmas jars being raided are still features of New Zealand life.

8. Pocket money

- When kids are young, coins are a great way to show them the value of money, and as young children can't get eftpos cards, pocket money still has to be cash. Children take their first steps into the world of money through cash purchases.
- ASB has launched a virtual elephant money box in response to parental demand to be able to transfer pocket money to their children online, but there are still plenty of jangly money boxes on kids' shelves.

9. Smaller purchases

- Research shows that we grow less and less likely to use cash as purchase prices rise. But \$20 notes, \$10 notes, \$2 and \$1 coins are all in decline as electronic payments continue on their upwards trajectory.
- The assault on cash through contactless payments and the spread of vending machines into which you can dip your chip card seems to be continuing the erosion. Only about 30 per cent of retail spending was now in cash, Bascand says in his speech.

10. Foreigners' cash holdings

- Our beautiful country gets three million visitors a year. They will do their spending in various ways - some by credit card, and some in cash.
- At any point in time, visitors planning to come may have a small store of kiwi currency set aside for their trip. Hayr says tourists use cash for a higher proportion of their purchases than New Zealanders.

Lecture Session 4:

Evolving Issue – Cashless Society?

- What happens when you can't see your money (Rachael Breckon) (<http://www.business.auckland.ac.nz/en/about/news-and-media/nz-herald-brand-insights/2016/what-happens-when-you-cant-see-your-money.html>) - 21 June 2016
- Sweden is regarded as the world leader in the 'cashless society'.
- Cash and currency are now facing their biggest transformations yet as the digitisation of money gathers pace.
- Sweden - regarded as the world leader in the 'cashless society' - cash transactions made up barely two per cent of all payments in 2015 and are predicted to be 0.5 per cent by 2020 (source: Guardian, June 2016).
- In Swedish shops, cash is now used for barely 20 per cent of transactions, half the number five years ago, and way below the global average of 75 per cent. Swedish buses don't take cash, nor does the Stockholm metro; card or phone payments are preferred in retail and street vendor outlets.
- About 900 of Sweden's 1,600 bank branches no longer keep cash on hand or take cash deposits - and many, especially in rural areas, no longer have ATMs.
- Do you think India could ever become cashless?

Lecture Session 4:

Evolving Issue – Cashless Society?

- Bill Gates famously said: "Banking is necessary. Banks are not."
- Reserve Bank of New Zealand reported the country's use of cash more than doubled in the decade 2000-2010.
- As with many disrupted industries, ASB's response to money's growing intangibility has been to re-position itself as a tech company. While the bank is still primarily a "trusted provider of financial services", ASB believes the future of banking lies in solving customers' problems in an agile and customer-centred way.
- "Banking needs to embrace the best of what is happening in technological change but it must always place the customer at the heart of what it does," he says. "If you don't do that, you can get carried away with a trend or fashion in technology and forget why you are doing it."
- Take the issue of money's growing intangibility - ultimately, says ASB, innovation attempts to solve the problems of the organisation, the problems of the customer, or the problems of society.
- "We have so many social mores and habits ingrained in a world where money is tangible. So, when money becomes intangible those things start to lose their efficacy.
- "That leads to problems such as customers spending beyond their means because they can't see their money; or people investing in things they can touch, like property, and not investing in things they can't see, such as shares."

Lecture Session 4:

Evolving Issue – Cashless Society?

- ASB has identified another challenge parents face in the cashless society: teaching their children the value of money in the digital age, when notes and coins tend not to be used for everyday purchases.
- This challenge led ASB to create 'Clever Kash', a cashless money box which allows parents to swipe virtual notes and coins towards the child's money box, which displays the updated ASB account balance.
- Sweden has the same worry - educators have also raised the issue of young people tempted to spend money they do not have. Senior citizens representatives say those who prefer cash, like older people, may be more reluctant to use new technology or easier to keep track of their spending and could be disadvantaged in a cashless world.
- ASB says the Clever Kash concept grew out of employing a tech mind-set to solve a customer problem, and involved collaboration between ASB's technology, marketing, financial and legal teams and the bank's creative agencies. It went into a customer pilot phase in April.
- Predicted banking trends: "Take bitcoin, or any of the crypto-currencies or distributed-ledger systems. "Whether you are a fan of Darwin or not, business is about survival of the fittest. That does not mean the ability to predict - it is about being able to adapt." -

Lecture Session 5: Evolving Issue – Digital Economy?

- What is the digital economy in India?
 - Implications for:
 - Consumers
 - Firms
 - Government
 - What are some of the key success factors?
- 

Lecture Session 6: Evolving Issue – Implications?

- Implications of a cashless society for NZ (<http://www.paymentsnz.co.nz/articles/implications-of-a-cashless-society-for-nz>) - 27 May 2016
- Arguments for a cashless society
- Cash and the underground economy:
 - The underground economy is seen as a driver of cash hoarding.
 - Traceable cash use makes up less than half of the banknotes currently in circulation.
 - Any retailer will tell you that one basic method of preventing robberies is to leave the cash register empty, open and in full view at the end of the day. Needless to say, removing cash handling all together also reduces petty theft and internal mishandling of cash internally.
- Enhancing the tax base
 - The economic benefits of a cashless society include an enhanced tax base, with more traceable transactions. This also leads to increased economic efficiency and velocity of commerce (cash is an inefficient financial asset that is always being eroded by inflation) and eliminates cash handling and transportation costs.
- Increased economic efficiency
 - Having a low cash / high electronic payment mix (like in New Zealand) makes a really important contribution to the overall economy. Electronic payments remove friction from the economy by increasing the pool of customers who can transact with all their funds (instead of just the cash in their pocket), As the world becomes more digital, electronic payments will facilitate online commerce.
- Cost reduction
 - Reducing cash payments will provide operational efficiencies, and lower money handling and transportation costs as well as lessen the need for cash handling equipment.

Lecture Session 6: Evolving Issue – Implications?

- Arguments against a cashless society
- Impact on marginalised groups
 - The most often cited argument against a cashless society relates to what we know about demographic trends in cash usage in New Zealand. Research shows that lower socio-economic and marginalised groups cannot access electronic payment methods and financial services as easily. They are more cash reliant and as such stand to lose more from the demise of cash as a payment method. Removing the cash default option for those that are less tech savvy or in lower socio-economic and marginalised groups, could mean restricted access to financial services for some.
- Privacy, anonymity and competition
 - Privacy and anonymity in payment choice are reduced without cash. Competition in the payments market is also important to consider. Less competition between payment instruments (due to elimination of cash payments) could lead to higher payments pricing, particularly for very low value transactions.
- System failures and disruptive events
 - Disruptive events that could stop electronic transactions processing, like a cyber-attack or a bank or payment system failure, could leave people without a means to transact.
- Will we see a cashless society in New Zealand?
 - Payments NZ will always advocate for more and better electronic payments and more efficient payment systems. But that does not mean we don't see a continued role for cash. We know the debate about the use of cash is not purely economic. We think the answer to whether we New Zealand will get to see cashless society lies more in human nature than in technological advancements.
 - Even if people do not use cash frequently, we seem to take great comfort from the tangible and liquid nature of cash. Just knowing that cash is accessible and is an option that is available to us seems to give Kiwis peace of mind. For this reason, it is our opinion that a near-cashless society is possible in the future, but the last step to becoming a fully cashless society won't happen any time soon.

Lecture Session 7: Case Example - EFTPOS

- Dunwoodie, Erica and Myers, Michael D. (1999) "The dreams of the cashless society: A study of EFTPOS in New Zealand," Journal of International Information Management: Vol. 8: Iss. 1, Article 5. Available at: <http://scholarworks.lib.csusb.edu/jiim/vol8/iss1/5>
- Review of EFTPOS presented above, it is clear that there were many reasons for the introduction of EFTPOS to the New Zealand market.
- The banks themselves often had conflicting ideas about the main purpose of EFTPOS.
- For example, the first mover in the introduction of EFTPOS, the Bank of New Zealand, saw EFTPOS as simply another way of delivering banking services.
- The BNZ did not view EFTPOS as a competitive weapon.
- The savings banks, on the other hand, saw EFTPOS as a way of capturing the retail banking business and as a means of gaining more revenue by providing more services to customers.
- It was a major disagreement about the purpose of EFTPOS that led to the collapse of a proposed integrated point of sale network in mid-1989.
- It was only much later that all the banks saw EFTPOS, not only as a way of securing customer loyalty, but also as a means of lowering their costs.

Lecture Session 7: Case Example - EFTPOS

- It is interesting to compare the cost of providing an ATM with the cost of an EFTPOS terminal.
- An ATM, even today, is relatively expensive for a bank.
- The basic function of an ATM is to withdraw cash, although other services are provided such as deposits, account transfers, and balance enquiries.
- An EFTPOS terminal, on the other hand, is very inexpensive for a bank, since the retailers themselves pay for the EFTPOS facilities.
- Although the banks were responsible for introducing EFTPOS in New Zealand, in recent years it has been retailers themselves who have become the driving force behind EFTPOS.
- The first indication of this change occurred in 1988, when New Zealand Wines and Spirits, a national retailer, demanded that the National Bank retain its EFTPOS service.
- After that time all the national chain stores began requesting terminals from banks or installing terminals themselves.
- This meant that no longer were the merchants doing the banks a service by using their terminals; rather, the banks were seen as providing the merchants with a worthwhile product and service.
- Merchants have discovered that customers tend to spend more when they use EFTPOS, payment is guaranteed, and store security is improved since it is no longer necessary to store large amounts of cash on site.

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- The dire consequences of India's demonetisation initiative (<http://www.economist.com/news/finance-and-economics/21711035-withdrawing-86-value-cash-circulation-india-was-bad-idea-badly>)
- World Bank downgrades India's growth forecast after demonetisation (<https://www.theguardian.com/world/2017/jan/11/world-bank-india-growth-forecast-7-percent-rupee-recall>)
- What happens when you can't see your money (Rachael Breckon) (<http://www.business.auckland.ac.nz/en/about/news-and-media/nz-herald-brand-insights/2016/what-happens-when-you-cant-see-your-money.html>) - 21 June 2016
- Ten reasons why NZ's Reserve Bank has invested in 'bright' new banknotes, ROB STOCK, October 14 2015, (<http://www.stuff.co.nz/business/money/72928410/Ten-reasons-why-the-Reserve-Bank-has-invested-in-bright-new-banknotes>)
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- Please note that much of the text from the slides directly quotes these references.

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Website Posts

- Your Brand Strategy? A Wonder of the World?
 - Posted by Robert Davis (FCIM) on January 25, 2017 in Branding, Tajmahal - I recently visited the Tajmahal with colleagues from mriu.edu.in Nikhil and Arun. What an amazing place! Such romance and history. The one thing that makes the Tajmahal a wonder of the world is a combination of the overall vision of beauty built on extreme detail. I was shown the centre line from which the overall [...]
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- Building Valued Digital Brands in India
 - Posted by Robert Davis (FCIM) on January 25, 2017 in Branding - The main key issue I am placing emphasis here with Indias digital revolution is the importance of startups creating strong valued digital brands. Two of my papers will help to under this process: Davis, R.A. Piven, I., and M Breazeale (2014). A Conceptual Model of Consumers Service Brand Consumption in Social Media Community, Journal of Retailing [...]
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- Digital Revolution in India?
 - Posted by Robert Davis (FCIM) on January 20, 2017 in India - A great time to be part of the digital revolution in India. Remonetization strategies key agenda is to speed up the transition. Moving Indias 90 percent hard currency dominant economy to 10 per cent.
 - Read More
- Remonetization? Is India read to go cashless?
 - Posted by Robert Davis (FCIM) on January 16, 2017 in Demonetization - An interesting article in todays Hindustan Times balancing consumer preference with infrastructure. In New Zealand in the 1980s both worked in tandem to make EFTPOS the primary payment method.
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- MRIU.EDU.IN Professor Lecture Series January 2017 Professor Robert Davis
 - Posted by Robert Davis (FCIM) on January 15, 2017 in Demonetization - I have been asked to deliver some lectures while i am visiting at MRIU.EDU.IN. My thoughts are to focus on demonetization or remonetization as they like to promote it in India. My focus is to explore with current discussion and students: What it is? Why do it? The effects? Then move on to look at [...]
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