

Jumping generations beyond cash –  
the real impact of demonetization

The sudden announcement by Modi government on November 8, 2016 of their decision to demonetize Rs. 500 and Rs. 1,000 currency notes with immediate effect (by midnight of November 8) came a shocker to the billion-strong Indians. There has been a spate of reaction – many positive and some negative. The “pain”, though not very serious, is real; the supposed “gain” could be substantial and the Jury will be out only months after. But amidst the entire din, something interesting has happened indeed, the subject of this column.

It was Nokia CEO in 2008 who made the observation

“for most Indians the mobile screen is their first screen, while for most people in USA and Western Europe it was their third screen, TV being the first screen and PC being their second screen”

Considering the fact that India had just over 45 million phone customers in 1995 when mobile phones entered the Indian market; and, during 2000-2010 India was adding more than 10 million new subscribers every month for many months to take it past a billion subscribers today, this observation is indeed insightful.

Something similar is happening today

Many of the educated, urban, middle class Indians were used to many other forms of money; cheque, demand draft, credit / debit cards, ATM, Tele-banking, Net Banking, Mobile banking, e-wallets and Apps-based banking. They all evolved over several decades and a lot happened in the past 15-20 years. Cheque clearing at the four metros (Bombay, Delhi, Madras and Calcutta) improved things in 70's and 80's; “cheque truncation” in multiple locations did away with physical movement of cheques (replacing thru cheque images) in the last decade. Credit card acceptance and ATM penetration was very low, though it started 3 decades back; there was significant increase in ATM penetration in the past decade, and debit cards dramatically increased the card usage. CBS implementation in the last decade led to Net Banking and Tele-banking and matured to multi-channel banking (Branch, Net, Tele, ATM). Starting with Apple App Store and Android PlayStore, Apps-based banking took off in a big way, thanks to mobile penetration and affordable smart phones in the past 6 years. In a sense,

most urban, educated citizens had tasted several generations of cash

The dramatic announcement on November 8, 2016 followed by PayTM, Freecharge and other e-wallet companies on the one hand, and NPCI-supported UPI and USSD on the other hand, had brought

millions of first generation Indian users to skip generations – cheque, ATM, Phone-banking and Net Banking – direct to very simple App-based banking and payment services in the past one month

I personally found it fascinating, that I took a couple of days to install and be comfortable with PayTM, but my driver needed just a couple of hours!

To me that IS the real benefit of demonetization; and to me, this “gain” (not going to the bank, not needing a PC, no need for complicated KYC for credit / debit card) is sufficient enough to put up with the “pain” of limited access to currency notes. With widespread AADHAR use and biometrics authentication becoming routine feature of low-cost phones in the next couple of years, a whole generation of Indians would have surely leap-frogged!

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