

Why demonetization has been disruptive for India

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Fresh data on consumer behavior shows that the transition to cashless will be a Herculean task in a country such as India

New Delhi: As most of the high-value currency notes scrapped on 8 November make their way back to the system, belying earlier expectations, the official narrative around the move seems to have shifted from this being a “surgical strike” against black money to being a great leap towards a cashless economy. But fresh data on consumer behaviour from a large-scale nationally representative survey conducted this year shows that the transition to cashless will be a Herculean task in a country such as India, where most consumers love cash, and very few have access to the Internet.

The ‘Household Survey on India’s Citizen Environment & Consumer Economy’ (ICE 360° survey) conducted this year shows that most Indian households prefer using cash for buying both essentials and consumer durables, and that nearly half of them have a habit of saving cash at home. The survey covering 61,000 households is among the largest consumer economy surveys in the country, and captures data till July 2016.

An earlier Plain Facts column by Tadi Kundu based on latest data from the Bank of International Settlements (BIS) had pointed out that India lags most emerging markets in access to point-of-sale terminals and automated teller machines.

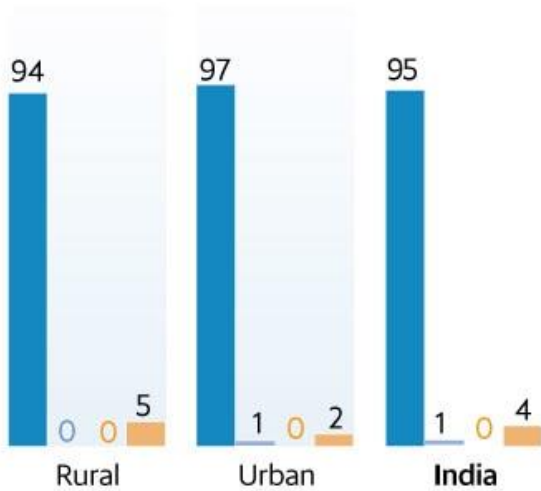
The challenge of scaling up the infrastructure for cashless payments is a big one, but there are two related challenges India faces in its attempt to transition to a cashless economy: bridging the country’s great digital divide and changing old habits of using cash for everything.

Cash is king

Almost all households in both urban and rural India prefer using cash for buying groceries

Preferred mode of payment for groceries (% households)

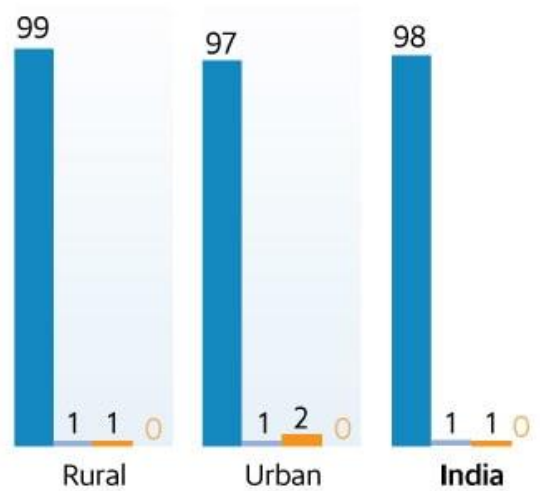
■ Cash
 ■ Card
 ■ Net banking/cheque
 ■ Informal store credit/others



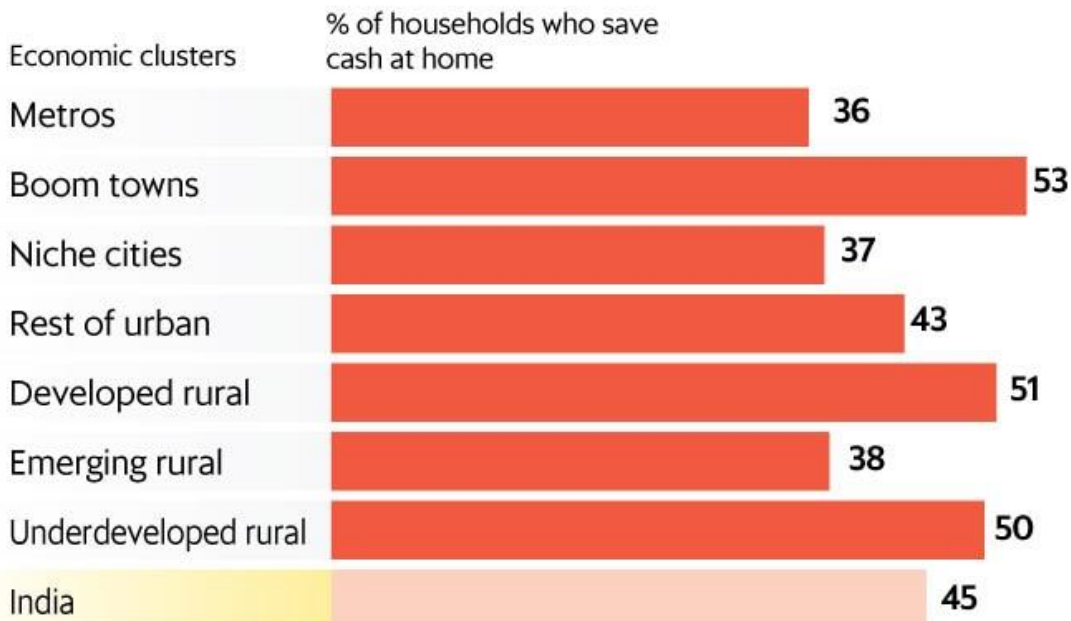
Almost all households in both urban and rural India prefer using cash for buying consumer durables

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Half of the households in underdeveloped rural areas have cash savings at home. Even in metros, more than a third of households save cash at home



The ICE 360° survey shows that only 10% of households in India reported having an Internet connection at home. In metros, the figure is comparatively higher at 26%, but in underdeveloped rural areas, only 3% have an Internet connection at home. The proportion of households where at least one member can access the Internet (either at work or home or elsewhere, and either through a computer or mobile) is a bit higher at 22%, but even on that metric there is a yawning chasm between big cities and underdeveloped rural areas.

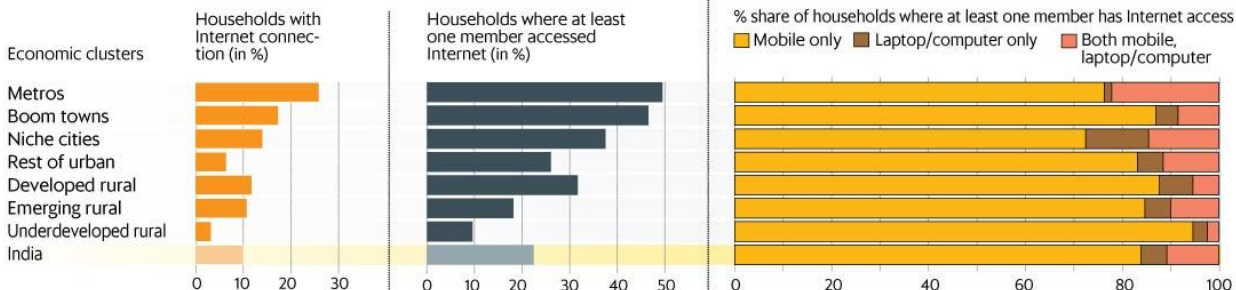
A notable feature of the ICE 360° survey is that it is representative at the level of economic clusters. Urban India has been divided into four clusters: metros (population more than 5 million), boom towns (2.5 to 5 million), niche cities (1 to 2.5 million) and other urban towns (less than 1 million). Based on a district development index, rural India has been sub-divided into three different clusters: 'developed rural', 'emerging rural', and 'underdeveloped rural'. The first category includes districts such as Bathinda (Punjab) and Kangra (Himachal Pradesh). The second category includes districts such as Latur (Maharashtra) and Kamrup (Assam), while the last category includes districts such as Kalahandi (Odisha) and Bastar (Chhattisgarh).

There is a similar divide across income classes when it comes to Internet access. Forty-seven per cent of households in the top quintile have at least one member with access to Internet. In stark contrast, only 4% of households in the bottom quintile have any member who can access the Internet.

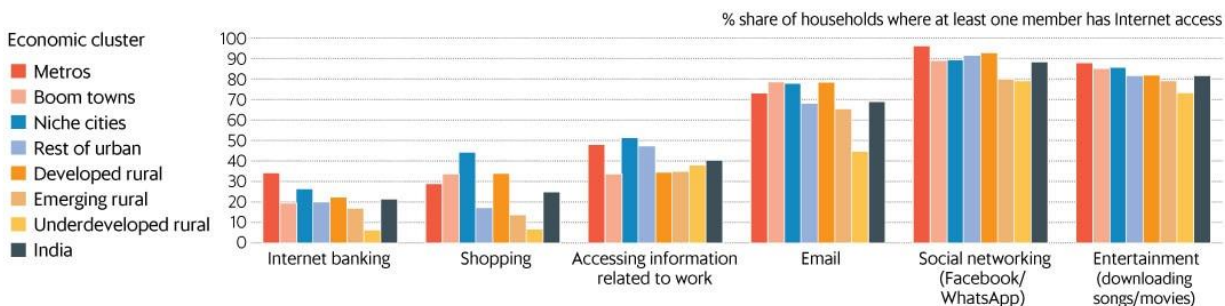
Digital divide

A quarter of households in metros reported having an Internet connection, and half reported having at least one member who could access the Internet, but the figures for underdeveloped rural areas are significantly lower

Most people in India with access to Internet get online via mobile phones. The proportion of people accessing the Internet only through mobiles is significantly higher in underdeveloped rural areas than in metros



Nine out of 10 people with access to Internet in underdeveloped rural areas don't use it for banking or shopping. In metros, two out of three people with access to Internet don't use it for banking or shopping



Graphic: Ahmed Raza Khan/Mint

Source: ICE 360° Survey, 2016

Seventy-seven per cent of households in the bottom quintile have a mobile phone, as an earlier part of this series pointed out, but the overwhelming majority of them do not seem to be accessing the Internet on their phones.

Even among those accessing and using the Internet, a majority did not use it either for banking or shopping, at least till July this year, the survey data shows.

An overwhelming majority of Internet users used it for social networking (through apps such as Facebook and WhatsApp), and only 21% of those having access to Internet reported using it for banking.

In metros, two out of three people with access to Internet did not use it for banking or shopping. In underdeveloped rural areas, nine out of 10 people with access to Internet did not use it for banking or shopping.

After 8 November, these figures must have changed, especially in areas with reliable Internet connections, but it is unlikely that a large section of India's digitally excluded citizenry has

suddenly been able to access the Internet and has been able to use it for their daily transactions.

It is more likely that those with Internet access (especially the richer classes living largely in metros) have been using it for shopping and banking in greater numbers, while the rest of the country queues up to get cash outside banks, ATMs and work sites.

It is the digitally excluded majority whose lives have been disrupted the most by demonetization.

'Digital India' may be an attractive slogan, but it is not a reality yet, the ICE 360° survey shows. The ICE 360° survey was conducted by the independent not-for-profit organization, People Research on India's Consumer Economy (PRICE), headed by two of India's best-known consumer economy experts, Rama Bijapurkar and Rajesh Shukla. The urban sample of the survey is comparable to that of the National Sample Survey Office (NSSO) consumer expenditure survey conducted in 2011-12.

While the NSSO surveyed 101,651 households of which 41,968 (41.3%) were urban households, the ICE 360° survey covered 61,000 households of which 36,000 (59%) are urban households. The rural sample of the ICE 360° survey is less than half of the NSSO sample. Nonetheless, all the estimates of each region have been derived by adjusting for the respective population of those regions.

Tadit Kundu in Mumbai contributed to this story.

This is the 10th of a 16-part data journalism series on how India lives, thinks, earns and spends, based on the latest results from the ICE 360° survey (www.ice360.in) conducted by the People Research on India's Consumer Economy (PRICE) in 2016. The next part will look at access to banking, and the instruments Indians use to save and invest.