

INDIAN ECONOMY TRANSITION TOWARDS CASHLESS ECONOMY

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The Union Government headed by Prime Minister Shri Narendra Modi, based on his vision towards Cashless India took a very crucial decision on 8 November 2016 of demonetizing of old currency notes of 500 and 1000 denominations. Leading citizens to large queues around ATM's and banks and enforcing them to look after for other digital modes of payments and this indirectly influenced them towards cashless from being cash based. Current article is about to bring the insights into the matter by explaining:-

- What is cashless economy?
- Need of cashless economy.
- Advantages of being cashless.
- Challenges in transition to cashless economy in India.
- Changing trends- availability of types of cashless modes and government implementations.
- Future of cashless economy in India.

WHAT IS CASHLESS ECONOMY?

Cashless Economy can be defined as a situation in which the flow of cash within an economy is non-existent and all transactions must be through electronic channels such as direct debit, credit cards, debit cards, electronic clearing, and payment systems such as Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS) in India.

NEED OF CASHLESS ECONOMY

- Indian economy is primarily to be driven by the use of cash and less than 5% of all payments happen electronically.
- Indians traditionally prefer to spend and save in cash and a vast majority doesn't even have a bank account.
- Indian economy is primarily driven by the informal sector and it relies heavily on cash based transactions.

- In 2015 around 75% of transactions in India were cash-based while in developed countries like USA, Japan, France, Germany etc. it was just around 20-25%.
- Debit card usage — over 85% (in volume) and 94% (in value) for the purpose of withdrawing cash.
- India's cash to GDP ratio an indicator of the amount of cash being used in the economy is around 12 to 13%, which is much higher than major economies including the US, the UK and Euro area but below that of Japan (about 18%).
- In India, cash operations cost the Reserve Bank of India (RBI) and commercial banks about Rs21,000 crores annually.

ADVANTAGES OF BEING CASHLESS

- Tackling Black Money: Record of all economic transactions through electronic means makes it almost impossible to sustain black economies or underground markets that often prove damaging to national economies.
- Circulation of Fake Currency notes can be curbed.
- A cashless economy will help reduce corruption.
- Increase Tax base: It is difficult to avoid the proper payment of due taxes in a cashless society, such violations are likely to be greatly reduced.
- Increased tax base would result in greater revenue for the state and greater amount available to fund the welfare programmes.
- Digital transactions bring in better transparency, scalability and accountability.
- Digital transactions are convenient and improve market efficiency.
- Transaction costs will come down in the long run.
- It would bring down the logistics & cost involved in printing, managing and moving money around.
- It will eliminate the risks associated with carrying and transporting huge amounts of cash

CHALLENGES IN TRANSITION TO CASHLESS ECONOMY IN INDIA

- Acceptance infrastructure and digital inclusion: Inefficient banking systems, poor digital infrastructure, poor internet connectivity, lack of robust digital payment interface and poor penetration of PoS terminals.
- Financial Inclusion: Every individual must have access to banking facilities and should hold a bank account with debit/credit card and online banking facilities.
- Digital and Financial Literacy: The citizens should also be made aware of the financial and digital instruments available and how to transact using them.

- Cyber Security: Establishing secure and resilient payment interfaces is a pre-requisite for going cashless.
- Changing habits and attitude: Adopt e-payments in an incremental fashion and spread awareness to initiate behavioural change in habits and attitude.
- Urban – Rural Divide – While urban centres mostly enjoy high speed internet connectivity, semi urban and rural areas are deprived of a stable net connection.

AVAILABILITY OF TYPES OF CASHLESS MODES

- **Mobile wallet:** It is basically a virtual wallet available on your mobile phone. You can transfer the money into these wallets online using credit/debit card or Net banking and can use these to pay bills and make online purchases.
- **Plastic money:** It includes credit, debit and prepaid cards. Cards are used for three primary purposes – for withdrawing money from ATMs, making online payments and swiping for purchases or payments at PoS terminals at merchant outlets.
- **Net banking:** Online transfer of funds from one bank account to another bank account, credit card, or a third party. You can do it through a computer or mobile phone. Log in to your bank account on the internet and transfer money via national electronic funds transfer (NEFT), real-time gross settlement (RTGS) or immediate payment service (IMPS), all of which come at a nominal transaction cost.
- The RBI classifies every mode of cashless fund transfer using cards or mobile phones as **‘prepaid payment instrument’**. They can be issued as smart cards, magnetic stripe cards, Net accounts, Net wallets, mobile accounts, mobile wallets or paper vouchers. They are classified into four types:
 1. **Open Wallets:** These allow you to buy goods and services, withdraw cash at ATMs or banks and transfer funds. It also allows you to send money to any mobile number linked with a bank account. M-Pesa by Vodafone is an example.
 2. **Semi-Open Wallets:** You cannot withdraw cash or get it back from these wallets. In this case, a customer has to spend what he loads. For example, Airtel Money/Ola Money.
 3. **Closed Wallets:** Where certain amount of money is locked with the merchant in case of a cancellation or return of the product, or gift cards. Flipkart and Book My Show wallets are an example.
 4. **Semi-Closed Wallets:** These wallets do not permit cash withdrawals or redemption, but it allows you to buy goods and services from listed vendors and perform financial services at listed locations. Paytm is an example.

GOVERNMENT IMPLEMENTATIONS

1. Unified Payments Interface has been launched by National Payments Corporation of India (NPCI) to further RBI's vision of transitioning towards a "less-cash" and more digital society. A set of standard application programming interfaces (APIs) provide an interoperable system for seamless transfers, and it has been built on top of the immediate payment service (IMPS) platform.

2. NITI Aayog Committee

The Centre has setup a committee headed by NITI Aayog CEO Amitabh Kant, to formulate a strategy to expedite the process of transforming India into a cashless economy.

3. Panel of Chief Ministers

The Centre has announced the setting up of a 13-member committee, which includes 6 Chief Ministers, to come up with an action plan to rapidly expand the use of digital payment platforms across the country. The committee would be headed by Andhra Pradesh CM Chandrababu Naidu and would also include NITI Aayog Vice-Chairman and CEO and top names from the industry and academia as special invitees.

4. Ratan Watal panel on digital payments

The panel, headed by former finance secretary Ratan Watal, was constituted to suggest ways to encourage India's movement towards a cashless economy and it has recommended about separate and independent payment regulator under RBI framework, restructuring Payment and Settlement Act to provide consumer protection, data security and privacy, using Aadhar as primary identification, interoperability between banks and payment service providers and imposing of cash handling charges.

FUTURE OF CASHLESS ECONOMY IN INDIA

India must learn from other countries in the developing world, which have managed to reduce their dependence on cash even while bringing in more people in the folds of the formal banking system and implementing the following:

- Invest in building the required financial and digital infrastructure
- A nationwide financial and digital literacy campaign accompanied by a medium-term strategy to improve access to, and awareness of, electronic payments. Targeted financial education programmes can improve financial skills and credit management, and increase account ownership and can change attitudes towards digital payments among customers and merchants
- Put in place all necessary cyber security measures.

Thus it can be concluded that India is ready to be transitioned to cashless but Government and citizens have to initiate change in their approach in practicality. Increase in Smart phones and improved 4G networks are leading towards better possibilities for being cashless economy.

