

CASHLESS INDIAN ECONOMY-AN UNFORESEEN REALITY

Vandita Goyal
B.Com(Hons)-VI Sem
TMIMT, TMU, MBD

ABSTRACT

Cash is like something of basic necessity without which survival is at stake. One of the main reasons that cash holds so much importance in our lives is that nothing can compete with the flexibility of notes and coins. Cashless Economy-no one has ever even dreamt of it. But, our Honourable Prime Minister showed the courage to come up with such a bold move. Cashless India is a mission launched by the Government of India to reduce dependency on cash and bring the hoards of stashed black money lying unused in the financial system. This article relates with certain aspects of cashless economy like its meaning, pros & cons, challenges and various other relatable issues.

KEYWORDS

Cashless Economy, Electronic Payment, Cash, Transactions

INTRODUCTION

Cashless Economy is a situation in which flow of cash within an economy is non-existent and all transactions have to be through electronic channels such as credit and debit cards, electronic clearing, payment systems such as Immediate Payment Service (IMPS), National Electronic Fund Transfer (NEFT), etc.

Despite the numerous strenuous efforts, India has always been driven by cash; while electronic payments are seen restricted to a small size of the population, compared to the cash transactions. Considering the demographics of India, two-thirds of the population live in rural areas, where farmers and poor people are still struggling to get their hands on their own money. As per Data in July last year, 881 million transactions were made using debit cards at ATMs. Out of these, 92 per cent were cash withdrawals from ATMs. The sole purpose for cards in India is to withdraw cash. Changing this mind-set of the layman will be an uphill task. Currently, there is a mix of cash and cashless transactions happening across the country, while many enablers are working towards turning the cashless economy dream into a reality. The government has taken big strides towards becoming a cashless economy; however it will take more than a generation to change the habit from cash to no cash transaction. Rushing the economy into a cashless state without proper planning and infrastructure might prove to be disastrous and its consequences will be everlasting. A

gradual move towards less-cash society as said by the Prime Minister is the right way forward.

A report by Boston Consulting Group (BCG) and Google India revealed that last year around 75 per cent of transactions in India were cash-based, while in developed nations such as the US, Japan, France, Germany etc. it was around 20-25 per cent. The depletion in cash due to demonetisation has pushed digital and e-transactions to the forefront; e-banking, e-wallets, and other transaction apps are becoming prevalent. It will help in moving towards a cashless economy.

Even the RBI has also recently unveiled a document — **“Payments and Settlement Systems in India: Vision 2018”** — setting out a plan to encourage electronic payments and to enable India to move towards a cashless society or economy in the medium and long term. Of course the digital era is something to embrace, and new methods of electronic payments will continue to be introduced. But Indians need to recognize the risks and benefits of different payment instruments, the risks associated with electronic payment instruments are far more diverse and severe. The ability of Indian financial institutions to protect the electronic currency has always been in question. It also gives public an important reason to favour cash.

REQUIREMENT OF CASH AND CHALLENGE TO GO DIGITAL

The magnificence of cash is that it works everywhere. As notes & coins are legal tender, it can also work even where the government might not be physically present. It is used by the public for businesses on an everyday basis. The ground reality reveals, a majority of transactions in Kirana stores, the go-to shop for daily purchases in India are cash based transactions, because these are generally small ticket transactions. The customers, as well as Kirana store owners feel more comfortable in dealing with cash for small transactions, while these merchants also provide credit facility to customers.

Considering the current and past scenario of cash usage by the public gives rise to the challenge to go digital. A major obstacle for the quick adoption of alternate mode of payments is mobile internet penetration, which is crucial because of poor internet connectivity; while banks have been charging money on card-based transactions, which is also seen as a hurdle. The low literacy rates in rural India, along with the lack of infrastructure like internet access and power make things extremely difficult for people to adopt e-transaction route.

The financial safety over the digital payment channels is important for pushing the cashless economy idea. Imagine losing your credit cards or being the victim of digital hackers can lead to a whole bunch of issues like denied payment, identity theft, account takeover, fraudulent transactions and data breaches. According to the digital security company Gemalto, more than 1 billion personal records were compromised in 2014.

BENEFITS OF CASHLESS ECONOMY

- Reduced instances of tax avoidance because it is financial institutions based economy where transaction trails are left.
- It will curb generation of black money.
- It will reduce real estate prices because of curbs on black money as most of black money is invested in Real estate, which inflates the prices of Real estate markets.
- In Financial year 2015, RBI spent Rs 27 billion on just the activity of currency issuance and management. This could be if we become cashless society avoided.
- It will pave way for universal availability of banking services to all as no physical infrastructure is needed other than digital.
- There will be greater efficiency in welfare programmes as money is wired directly into the accounts of recipients. Thus, once money is transferred directly into a beneficiary's bank account, the entire process becomes transparent. Payments can be easily traced and collected and corruption will automatically drop, so people will no longer have to pay to collect what is rightfully theirs.
- There will be efficiency gains as transaction costs across the economy should also come down.
- 1 in 10 notes are supposed to be fake, which has a huge negative impact on economy, by going cashless that can be avoided.
- Hygiene – Soiled, tobacco stained notes full of germs are a norm in India. There are many such incidents in our life where we knowingly or unknowingly give and take germs in the form of rupee notes. This could be avoided if we move towards Cashless economy.
- In a cashless economy there will be no problem of soiled notes or counterfeit currency
- Reduced costs of operating ATMs.
- Speed and satisfaction of operations for customers, no delays and queues, no interactions with bank staff required.
- Improvement in credit access and financial inclusion, which will benefit the growth of SMEs in the medium/long run.
- The increased use of credit cards will definitely reduce the amount of cash that people will carry and as a consequence, reduce the risk and the cost associated with that.

CHALLENGES IN MAKING CASHLESS ECONOMY

- Non-availability of proper internet connection and financial literacy.
- Though bank accounts have been opened through Jan Dhan Yojana, most of them are lying unoperational. Unless people start operating bank accounts cashless economy is not possible.
- There is also vested interest in not moving towards cashless economy.

- India is dominated by small retailers. They don't have enough resources to invest in electronic payment infrastructure.
- The perception of consumers also sometimes acts a barrier. The benefit of cashless transactions is not evident to even those who have credit cards. Cash, on the other hand, is perceived to be the fastest way of transacting for 82% of credit card users. It is universally believed that having cash helps you negotiate better.
- Most card and cash users fear that they will be charged more if they use cards. Further, non-users of credit cards are not aware of the benefits of credit cards.
- Indian banks are making it difficult for digital wallets issued by private sector companies to be used on the respective bank websites. It could be restrictions on using bank accounts to refill digital wallets or a lack of access to payment gateways. Regulators will have to take a tough stand against such rent-seeking behaviour by the banks.

PRESENT SCENARIO

India is currently in the middle of an all-out movement to modernize the way things are paid for. New bank accounts are being opened at a heightened rate, e-payment services are seeing rapid growth, cash-on-delivery in e-commerce has crashed, and digitally-focused sectors like the online grocery business have started booming.

“Even the vegetable vendors on the streets have opened up Paytm accounts and they have a machine outside their shop where someone can scan the bar code and make the payment”

Modi's demonetization initiative has been a boon for India's e-payment providers. Paytm reported a three-time surge in new users -- tacking on over 14 million new accounts in November alone. While Oxigen Wallet's daily average users increased by 16.7% since demonetization began.

“Ever since Prime Minister Narendra Modi's demonetization announcement, we have suddenly seen a spike in both app downloads & merchant registrations. This spike is now coming from all cities, big and small, pan-India, consisting of small merchants like vegetable vendors, Kirana shopkeepers [small convenience stores], street vendors, rickshaw drivers, taxi's etc., who've signed onto our Oxigen Wallet app for the merchant payments service,” said Pramod Saxena, the founder and CMD of Oxigen Services.

STEPS TAKEN BY GOVERNMENT

- Licensing of Payment banks.
- Government is also promoting mobile wallets. Mobile wallet allows users to instantly send money, pay bills, recharge mobiles, book movie tickets, send physical and e-gifts

both online and offline. Recently, the RBI had issued certain guidelines that allow the users to increase their limit to Rs 1,00,000 based on a certain KYC verification.

- Promotion of e-commerce by liberalizing the FDI norms for this sector.
- Government has also launched UPI which will make Electronic transaction much simpler and faster.
- Government has also withdrawn surcharge, service charge on cards and digital payments.

WHAT ELSE NEEDS TO BE DONE?

- Open Bank accounts and ensure they are operationalized.
- Abolishment of government fees on credit card transactions; reduction of interchange fee on card transactions; increase in taxes on ATM withdrawals.
- Tax rebates for consumers and for merchants who adopt electronic payments.
- Making Electronic payment infrastructure completely safe and secure so that incidents of Cybercrimes could be minimized and people develop faith in electronic payment system.
- Create a culture of saving and faith in financial system among the rural poor.
- The Reserve Bank of India too will have to come to terms with a few issues, from figuring out what digital payments across borders means for its capital controls to how the new modes of payment affect key monetary variables such as the velocity of money.
- RBI will also have to shed some of its conservatism, part of which is because it has often seen itself as the protector of banking interests rather than overall financial development.
- The regulators also need to keep a sharp eye on any potential restrictive practices that banks may indulge in to maintain their current dominance over the lucrative payments business.

CONCLUSION

A transition to a cashless economy will depend on a number of factors. First, the availability and quality of telecom network will play an important role. Presently, people face difficulties in making electronic payments even in metro cities because of poor network. Second, as one of the biggest beneficiaries of this transition, banks and related service providers will have to constantly invest in technology in order to improve security and ease of transaction. People will only shift when it's easier, certain and safe to make cashless transactions. Third, the government will also need to play its part. It will have to find ways to incentivize cashless transactions and discourage cash payments.

The government will have to create conditions—not necessarily by creating cash shortages—to push cashless transactions to a threshold level after which the network effect will take

over. India may not become a cashless economy in the foreseeable future, but it needs to reduce its unusually high dependence on cash to bring in much needed transparency and efficiency in the system.

The latest World Bank report has mentioned that the demonetisation will not have any long-term adverse effect on the health of Indian Economy. Rather it will prove beneficial with growth of the Indian economy rising to 7.6% in fiscal year 2018. Liquidity expansion in the banking system post-demonetisation has helped the banks to lower lending rates, which in turn is bound to lift economic activity.

However, the benefits of this move have now started trickling in with more and more people switching to digital modes of receiving and making payment. India is gradually transitioning from a cash-centric to cashless economy. Digital transactions are traceable, therefore easily taxable, leaving no room for the circulation of black money. The whole country is undergoing the process of modernisation in money transactions, with e-payment services gaining unprecedented momentum. A large number of businesses, even street vendors, are now accepting electronic payments, prompting the people to learn to transact the cashless way at a faster pace than ever before.

REFERENCES

- www.google.co.in
- www.thetimesofindia.com
- www.wikipedia.org
- www.economictimes.com
- Various newspapers and magazines.