



The inclusion factors towards a cashless economy

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Abstract

Cashless Economy refers to a financial system where all or most of the money transactions are undertaken using digital media and network. One of the major goals of the Government of India behind the decision of demonetisation was to encourage digital transactions and transform India in a cashless economy. In recent times, with various initiatives through banks and making tax amendments, the Central Government is paving the way for electronic transactions. Though reports highlight a growth in this reference, participation of rural India is yet to be satisfactory.

In this paper, an attempt is being made to analyse the changing situation since demonetisation and discuss the need of a societal approach in making the dream of cashless economy into reality.

Keywords: digital transaction, demonetisation, cashless

1. Introduction

In this era of digitalisation, information has become the most valuable asset. Distance barriers started to vanish away as the world has fit down to the screens of digital devices like laptops, tablets and mobile phones. People find it more convenient to use these devices in every possible way due scarcity of time. From buying pizza to stay in touch with close ones, mobiles are serving every need of human-being. However, when it comes to money, perceptions and practices cease to change. As a result, on the completion of one year after demonetisation, we are still trapped in the transitional mode.

Unfortunately, we live in a country where the Finance Minister has to declare in his budget speech that the number of car purchases during the year had been more than the number of people showing income equal to or more than the price of one car. Increase in the purchasing power could not positively impact the generation tax revenue. With cash transactions forming the major part of the financial system, India was an exception to the ongoing changes in international payment habits. According to a study by Visa, the cost of cash transactions in India is equivalent to 1.7 per cent of the gross domestic product (GDP). To put that figure in perspective, the central government's capital expenditure in 2016-17 was marginally lower at 1.6 per cent of GDP. However, the situation is witnessing a change because of a combined effect of government and bank initiatives and preference of the urban citizens towards virtual activities.

2. Paper Objectives

With the help of secondary data available mostly from government sources, this paper attempts -

1. To discuss the major benefits and barriers of a Cashless system in Indian economy.
2. To analyse the state of digital payments in India after Demonetisation.

3. To discuss the societal value of Digitalisation and its significance in Indian aspect.

3.1 Major benefits of a cashless economy

There had been so much discussions on the advantages of a cashless economy, so let us make it short. Some of the popular ways of cashless payments in India are plastic cards, net-banking, mobile wallets, USSD, UPI apps, etc. A 100% cashless economy promises to reduce tax evasion, cost of physical currency issuance including printing, storage and transportation, increase vigilance and transparency. A careful look to the above indicates that the benefits are more attributable to the Government. However, citizens can also do away with the fear of theft, duplicate notes, change of coins or payment of balance system.

3.2 Barriers to cashless payments in India

In commerce, cash is treated as the most liquid asset available to human-being. Payments through physical cash like currency notes and coins is the fastest mode of payment when it comes to payment of small amounts. Moreover, there is no visible transaction cost when payments are made in physical currency. Therefore, individuals find cash more convenient and easy to use. A large informal economy that supports a major part of Indian population and their livelihoods also runs in cash. In simple words, India has always been a cash-driven economy. Academicians and professionals found many reasons that hampers the implementation of a cashless economy in India. These include –

- Inadequate infrastructure with insufficient Point of Sale (POS) terminals in suburban and rural areas.
- There is resistance to change since individuals and unregistered business entities fear that their financial activities will be tracked and some of them tend to use cash payments as a tool of tax evasion.
- Poor network connectivity in most of the parts of India not

only create a digital divide but also discourage digital transactions.

- Unequal access to banking sector and insufficiency in the number of banking units in rural India works as a barrier to bring daily wage workers within the banking system.
- Cyber Security is a prominent threat to the cashless system. A man named Hamza Bendelladj was arrested for hacking over 200 banks in USA by infecting the banking

network with malware and thereby succeeded to steal around \$280 Million. This news was made viral and revealed the security leakages in cashless system.

3.3 Where we stand

The global outlook towards cashless transactions is somewhat different. Forex Bonuses released a list of most cashless economies based on various factors.

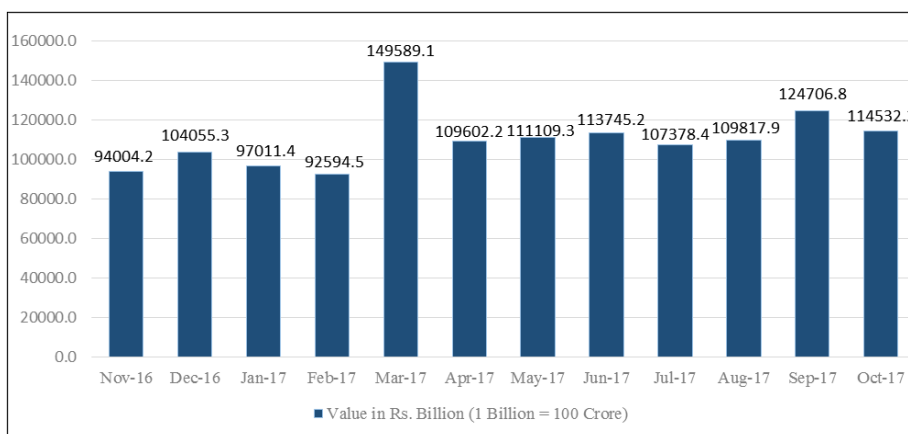
Table 1: Most cashless economies

Overall Ranking	Country	Proportion of cards in issue with contactless functionality	Debit Cards per Capita	Credit Cards per Capita	Transactions Using Non-Cash Methods (%)	Growth of Cashless Payments over past 5 years	People Awareness (%)
1	Canada	26	0.70	2.16	57	16	39
2	Sweden	25	0.98	1.04	59	13	47
3	UK	41	1.48	0.88	52	15	47
4	France	39	0.65	0.10	59	14	38
5	USA	23	0.94	2.90	45	12	48
6	China	56	3.28	0.33	10	100	77
7	Australia	39	1.75	1.00	35	10	39
8	Germany	26	1.25	0.06	33	10	48
9	Japan	26	3.30	0.67	14	12	27
10	Russia	18	1.35	0.22	4	22	57

Source: www.forexbonuses.org

Though India could not find a place in the above list, a move towards a cashless economy in India in terms of cashless transactions is very much visible. As per reports from the Niti Aayog, digital payments in India grew 55% in volume and 24.20% in value in the financial year 2016-17. This growth is mostly contributed by the urban youth and corporates. As per the latest information released by the Reserve Bank of India (RBI), NEFT volume was more than 18 crores which with a massive transaction value of Rs. 17,321 billion in the month of July 2018. Following the same trend, Indian Banks executed a total number of 1.097 crore RTGS transactions involving Rs. 1,12,012.91 Billion. If compared with the results of July 2017, there is a growth of 21.92% in the number of

NEFT and 16.95% in the number of RTGS transactions in one year. However, going back to the time of demonetisation, figures (Figure 1) show that though there was a rise in the number of digital transactions in consequence of the sudden announcement of demonetisation, once the market came back to constancy, the growth of cashless transactions could not stable down. This reflects only the inadequacy in the existing system to cope with the high demand and not favourability towards digital payments. Moreover, a conservative shift in the expenditure pattern of Indians post-demonetisation and availability of new currency notes thereafter worked as obstacles.



Source: Reserve Bank of India

Fig 1: Electronic payments in India

4. Observations

There are two aspects of the journey towards cashless economy. First is that all transactions involving significant amount of money is undertaken digitally; and second, every

individual is a part of the cashless system. The sudden jump in the number and volume of digital transactions after demonetisation exhibits the fact that a crunch in the paper-based money market may help digital transactions grow.

However, that cannot be a permanent solution. As the sections 40A(3), 269SS and 269T of the Income Tax Act prohibits cash payments involving an amount exceeding Rs.20,000, we can conclude that a cash transaction of large amount directly or indirectly always leads to tax evasion.

On the other hand, when we implement a financial reform in a country of more than 1.2 billion populations, the societal aspects should be given paramount importance. People living in rural areas may not significantly contribute to the aggregate value of digital transactions. However, a large scale reform is not possible without well planned financial inclusion. Availability and usability of cashless transactions should be a right to every individual and appropriate infrastructure, financial literacy and technology awareness may serve to this purpose. Proper and adequate telecommunication and internet facility is as important as banking system in the transition towards cashless system. As per a report of the Telecom Regulatory Authority of India (TRAI), in 2016, urban internet subscribers per 100 populations were 68.86 whereas they form only 13.08 in rural areas. Recent reports suggest that the tele-density in urban India (till July 2018) was 159.38% but the rural tele-density was only 58.45%. On the other hand, the latest data released by RBI shows that apart from SBI, all top spots in the list of outward NEFT transactions are held by the private banks who mostly run their business in urban parts of India. These figures reveal the insufficient availability of infrastructure and is a major setback to cashless economy in a country having around 70% of the population residing in rural area.

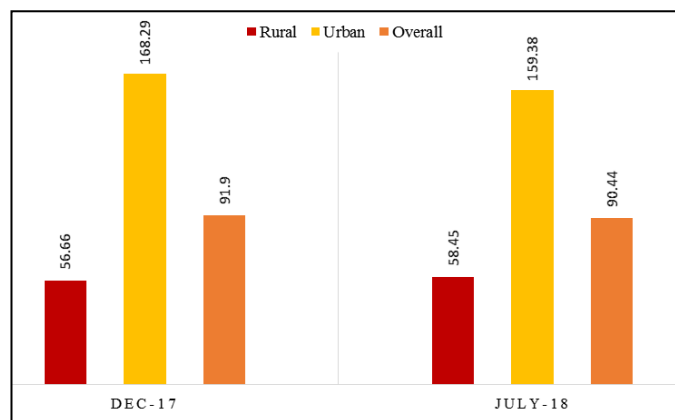


Fig 2: Tele-density (%) in India

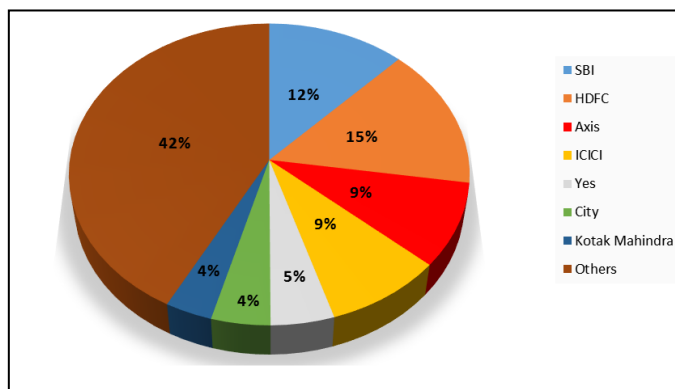


Fig 3: Number of outward NEFT (July 2018)

5. Some initiatives by Indian banks

Banking sector pays the most vital part in the development of a cashless economy. It is the initiatives and attitude of the banks towards a financial reform that help to ensure a positive and welcoming response from the society at large. The largest bank of the nation in terms of customers, the State Bank of India adopted a village named Shirki in Maharashtra to promote aadhar based merchant payments. SBI has also adopted Seekarajapuram, a village in Tamil Nadu to promote cashless payments through their mobile app, SBI Buddy. The Union Bank Initiated “Cashless Campus Project” in all Kendriya Vidyalaya and every school under the Council of Higher Education in Odisha. Axis Bank joined hands with Kochi Metro Rail Corporation (KMRL) to launch KMRL Axis Bank ‘Kochi 1’ Card, India’s first open loop EMV contactless metro card. With the help of the National Payments Corporation of India (NPCI), Axis Bank succeeded in developing this transit EMV contactless specification on interoperable open standards. ICICI Bank announced to transform 100 villages into ‘ICICI digital village’ through digitisation of transactions & commercial activities, vocational training and credit facility, while HDFC Bank set a target to train 25,000 people in Madhya Pradesh through their “Digital Literacy Camps”. Previously, ICICI had launched India’s first mobile app ‘Eazypay’ for merchants to accept payments on mobile phone through multiple digital modes. After affiliation from RBI, PAYTM and Airtel have also joined the march. On the other hand, as a move to discourage cash transactions, banks have imposed transaction charges beyond four free monthly cash transactions.

In their “Vision 2018”, RBI aimed to provide a payment system with the attributes of safety, security and universal reach, combined with technological solutions facilitating faster processing, enhanced convenience in use of payments related information. RBI outlined the initiative with 5 C’s –

- Coverage – by enabling wider access to a variety of electronic payment services.
- Convenience – by enhancing user experience through ease of use and of products and processes.
- Confidence – by promoting integrity of systems, security of operations and customer protection.
- Convergence – by ensuring interoperability across service providers.
- Cost – by making services cost effective for users as well as service providers.

This initiative primarily focuses on

- Responsive Regulation – Framing new policies for Central Counter Parties, review existing policies, setting up Payment System Advisory Council, strengthening financial stability through encouraging adoption of Legal Entity Identifiers by financial entities etc.
- Robust Infrastructure - Faster payment system, implementation of Bharat Bill Payment System and Trade Receivables Discounting System, promoting interoperability, enhancing safety and complete migration to CTS 2010 standards for cheques etc.
- Effective Supervision - Assessment of resilience of payment and settlement infrastructure including FMIs and System-Wide Important Payment Systems (SWIPS),

strengthening the reporting framework, designing an oversight framework for large-value and retail payment system etc.

- Customer Centricity - Strengthening customer grievance redressal mechanism, customer education and awareness, positive confirmation in RTGS etc.

6. Conclusions

The economy in India is mixed in nature, with a combination of capitalist and socialist elements. Any economic reform in this country affects both sets of elements. When we talk about using mobile devices, we keep ourselves ignorant to the fact that we who use these devices and talk of a cashless system, are in fact the minorities in this country. The majority still lacks digital literacy and except a full-fledged financial inclusion is successfully carried out, it will be far from reality to think of a digital economy. The societal aspects of Indian economy should get equal importance and unless infrastructure reaches the poor, we cannot reach a cashless economy. The high-value transactions contribute a significant portion of the much-discussed total rupee value of digital transactions. But in a developing country like India, number of digital transactions should be given no less importance than the volume of transactions because it rather reflects the popularity and acceptance of digital transactions among users. Inter-bank transfers should be more simplified and transactions costs of digital payments should not exceed the cost of physical payments for the users. To make it simple, the perceived benefits of digital transactions should not exceed its perceived costs. Paper-less payment system should be a visible value addition for all. However, the demographic structure of our nation may not always be favourable to the change. It seems viable to transit to a 'less-cash' economy and then towards a 'cashless' economy rather than making a huge jump. Nevertheless, the transition has begun with the technological progress and state initiatives. Given the fact that the youth is more prone to technology and India has the largest youth population in the world, the goal does not seem unachievable.

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