

Cashless INDIA: A Daydream or Pragmatic

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Abstract: On 8th November 2016 at 8:00PM Prime Minister of India declaration for demonetization of Rs1000 & Rs500 banknote from Indian Economy .Govt of India ceasing the usage of all Rs1000 & Rs500 banknote of Mahatma Gandhi Series as legal tender in India after 9 November 2016.This big decision was taken by Government against black money terrorism. India continues to be driven by the use of cash; less than 5% of all payments happen electronically however the finance minister, in 2016 budget speech, talked about the idea of making India a cashless society, with the aim of curbing the flow of black money. As per RBI document “**Payments and Settlement Systems in India: Vision 2018**” setting out a plan to encourage electronic payments and enable India to move towards a cashless society.It is a difficult task for such a big country whose more than 70% population lives in villages and 25 % are illiterate and where food security is not guarantee for each citizen. So there are many hurdles for cashless economy but on the other hand it can be a solution of many such problems.

Keywords: cashless, budget, finance, RBI, demonetization,tender.

1. Introduction

A cashless country/economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal. India uses too much cash for transactions. India is using 12.42b% of GDP in cash which is highest in the world and other countries are using maximum 6% to 8% China 9.47% and 4% in Brazil. Less than 5% of all payments happen electronically in most of the countries The number of currency notes in circulation is also far higher than in other large economies. India had 76.47 billion currency notes in circulation in 2012-13 compared with 34.5 billion in the US. Some studies show that cash dominates even in malls, which are visited by people who are likely to have credit cards, so it is no surprise that cash dominates in other markets as well.

2. What are the benefits of cashless economy:

(i) It will curb generation of black money.

(ii) The real estate prices will be reduced because of curbs on black money as most of black money is invested in Real estate prices which inflate the prices of Real estate markets.

(iii) Reduced instances of tax avoidance because it is financial institutions based economy where transaction trails are left.

(iv) It will save the Government's money because in Financial Year 2015-16, RBI spent Rs 27 billion on just the activity of currency issuance and management. This could be avoided if we become cashless society.

(v) It will pave way for universal availability of banking services to all as no physical infrastructure is needed other than digital.

(vi) There will be greater efficiency in welfare programs 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. Using Aadhaar attached with bank account in LPG subsidy. As per World Bank report of 2016 titled “**Digital Dividends**” saying that Aadhaar would save 11 billion dollar annually if applied to social programs and welfare distribution. The Government of India saved through Direct Benefit Transfer (DBT) scheme Rs49560 crore in just two years 2014-15 and 2015-16.

(vii) It will be Hygiene for citizens. 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.

(viii) An increased use of debit/credit cards instead of cash would primarily enable a more detailed record of all the transactions which take place in the society, allowing more transparency in business operations and money transfers.

(ix) Reduced costs of operating ATMs.

(x) Speed and satisfaction of operations for customers, no delays and queues, no interactions with bank staff required.

3. Can India be a cashless economy :

India is a big country in case of population, geographical area and cultural distinctions and most of Indian populations (more than 26%) are illiterate and 72.2% of people lives in 638000 villages. Only 6% people of India knows to operate computer. As per Indian Telecom statistics the Telephone subscribers (wireless and landline) in India are 105.80 crores Landlines phones are 2.5 crores Cell phones: 103.3 crores and 11 Lakhs cell phones are added per month and the teledensity is 82.82% (upto May 2016). Problem is most of the population is not aware about digital India or digital use facilities provided by many telecommunication companies and Government of India

4. Digital payment methods in India:

(i) Banking cards(Debit/Credit/Cash/Travel/Others)

(ii) USSD(Unstructured Supplementary Service Data) or *99# facility. This service allows mobile banking transactions using basic feature mobile phone, there is no need to have mobile internet data facility for using USSD based mobile banking. Mobile No must be linked with Bank account no.

(iii) AEPS(Aadhar enabled payment System): Aadhaar No must be linked with Bank account no.

(iv) UPI(Unified Payments Interface):It is based on peer to peer communication. It powers multiple bank accounts into a single bank application along with merging several bank services and features.

(v) Mobile wallets: A mobile wallet is a way to carry cash in digital format. You can link your credit card or debit card information in mobile device to mobile wallet application or you can transfer money online to mobile wallet. Account must be linked with digital wallet. Ex Paytm, mPuppee, SBI Buddy, mobikwik, Freechargeetc

(vi) Bankspre paid cards:

(vii) Point of sale: A point of sale (PoS) is the place where sales are made. It required handheld device with card or bio metric reader.

(viii) Internet Banking: It is also known as online banking, e-banking or virtual banking.

(ix) Mobile Banking:

(x) Micro ATMs: It is a device that is used by a million Business Correspondents to deliver basic banking services. The platform will enable Business Correspondents (who could be a local kirana shop owner and will act as micro ATM') to conduct instant transactions.

(xi) BHIM(Bharat Interface For Money): Bharat Interface for Money (BHIM) provides fast, secure, reliable medium to make digital payments through your mobile phone using UPI platform via Mobile App and USSD. It was launched by Hon'ble Prime Minister on 30th Dec 2016 and within 10 days, the BHIM app had 1 crore downloads from Android Play Store and over 2 million transactions.

5. where does India stand?

A Moody's report pegged the impact of electronic transactions to 0.8% increase in GDP for emerging markets and 0.3% increase for developed markets because of increased velocity of money

6. Challenges in making India a cashless economy

- Availability of internet connection and financial literacy.
- Though bank accounts have been opened through Jan DhanYojana, most of them are lying un operational. 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.

7. Steps taken by RBI and Government to discourage use of cash

- Licensing of Payment banks
- Government is also promoting mobile wallets which 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
- Government also giving information and educating people to promote cashless transaction through TV Channels, Centres and installing POS. Some examples are given below.
- DigiShala- A program on DD channel about Digital Payments
- Digital Finance for Rural India: Aware people via Common Service Centres.
- Indian Railway install 10000 POS to promote cashless transactions.
- Visaka (Vittiya Saksharta Abhiyan) is started by MHRD.

8. What else needs to be done?

- (i) Open Bank accounts and ensure they are operationalized.
- (ii) Abolishment of government fees on credit card transactions; reduction of interchange fee on card transactions; increase in taxes on ATM withdrawals.
- (iii) Government Services fees like revenue, college/school fees/all type of registration fees/challan etc. must be paid through plastic money.
- (iv) Tax rebates for consumers and for merchants who adopt electronic payments and some fee must be charges on cash withdrawal of amount more than Rs. 50000.
- (v) Making Electronic payment infrastructure completely safe and secure so that incidents of Cyber crim2es could be minimized and people develop faith in electronic payment system.
- (vi) Create a culture of saving and faith in financial system among the rural poor.
- (vii) 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.
- (viii) 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.
- (ix) 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.
- (x) The online fraud cases may be solved on priority basis and there must be a separate department who only handle digital transactions related issues.

Though it will take time for moving towards a complete cashless economy, efforts should be made to convert urban areas as cashless areas. As 70% of India's GDP comes from urban areas if government can convert that into cashless it will be a huge gain. Therefore different trajectories need to be planned for migration to cashless for those having bank account and for those not having.

Reference:

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