

Cashless economy in India- Challenges and opportunities

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Abstract

In India most of the transactions are done in cash, the currency demonetization has provided an opportunity to give a big thrust to electronic transactions to improve transparency and weed out black money. These transform the lives of people in many ways and will empower the society in a better manner. One of the most recent effect has been the move towards a cashless economy in India. Starting with the note ban in November 2016 due to sudden withdrawal of the notes of Rs. 500 and Rs. 1000 denomination from the economy, the Indian economy is going cashless. These are having a multiple implications on the economy. Today, every nation wants to be fully digitalized and this programme strives to provide equal benefit to the user and service provider. Hence, an attempt has been made in this paper to understand impact of digitalization on the economy, the challenges the policy makers have to face in implementing and also the repercussions on the lives of the people as a whole.

Key Words: Cashless Economy, Digitalization, Demonetization

Introduction:

A cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal. In simpler words no liquid money or paper currency will be used by the people in a given country. In a cashless economy the third party will be in possession of your money. He will allow you to transact that money whenever it is needed. If it is not needed then the third party can use that money. Third party can be a government or any other public or private sector bank.

Today, every nation wants to be fully digitalized that will empower society in a better manner. India uses too much cash for transactions. The ratio of cash to gross domestic product is one of

the highest in the world—12.42% in 2014, compared with 9.47% in China or 4% in Brazil. Less than 5% of all payments happen electronically. 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. Even in malls were mostly educated and affluent people who are likely to have credit and debit cards, do purchasing is dominated by cash, so it is no surprise that cash dominates in other markets as well.

Objective and Research Methodology:

The study is based on secondary data which is collected from the published reports of various organizations..

This study was planned with the following objectives:

- To identify the impact of cashless economy
- To determine the possible problems in implementing digital economy.
- To give an insight into major initiatives by government to boost digital economy

Current Scenario in India

Indians are traditionally inclined to use cash transactions. At present, digital payments account for 15 percent of the \$1.5 trillion worth of consumer spending in India. With more than 350 million internet users, annual growth rate of internet users in India is 32%. India has one of the highest cash to gross domestic product ratios in the world.

India's cash to GDP ratio is around 12 to 13%, which is much higher than major economies including the US, UK and Euro area but below that of Japan, which is about 18%. Emerging economy like Indonesia has a much lower ratio of around 5%. India has the highest currency-GDP ratio among BRICS (Brazil, Russia, India, China, South Africa) nations. China's currency-to-GDP ratio, which stood at 14.6% in 2000, hit a low of 9.1% at the end of 2015. The ratio was almost at the same level for India and China between 2008 and 2012.

According to a report by SBI's Economic Research Department current size of digital banking including credit card, debit card, e-wallets, POS(Point of Sale) etc. is around RS. 1.2 Lakh crore.

Top cashless countries

COUNTRIES	CASHLESS TRANSACTIONS
1-Singapore	61%
2-Netherlands	60%
3-France	59%
4-Sweden	59%
5-Canada	57%
6-Belgium	56%
7-United Kingdom	52%
8-USA	45%
9-Australia	35%
10-Germany	33%
11-South Korea	29%
12-Spain	16%
13-Brazil	15%
14-Japan	14%
15-China	10%
India	2%

Source: Mastercard Advisor's Measuring progress toward a cashless society

The costs of running a cash-based economy

It is a misconceived conception that cash is free . As per the data by Reserve Bank of India (RBI), Withdrawals made from around 2,00,000 ATMs was 730 million. In this procedure we are wasting 60 million man-hours a month, if we consider a minimum of 5 minutes per transaction. As of November 2016, the currency with public stands at Rs.14.63 trillion, that is more than 90% of the total currency in circulation. This implies that almost the entire amount is in daily circulation. In Financial year 2015, RBI spent Rs 27 billion on just the activity of currency issuance and management. In 2010-11 it was 24 billion which means year by year the cost is increasing.

Banks have a network of over 4,132 currency chests and incur costs on transporting cash along with the opportunity cost of idle cash. High cash usage also gives rise to the black money menace. Even by broad estimates, the direct cost of running a cash-based economy is close to 0.25% of India's gross domestic product (GDP). Thus, there is a massive direct benefit of moving towards cashless transactions in India.

Prospects

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.

Digital economy will help to enhance our current banking system. There will be increased access to credit for people who did not fall in any banking network. Financial inclusion will automatically reduce poverty. All the transactions that are done can be monitored and traced back to a given individual.

One in seven notes is supposed to be fake, which has a huge negative impact on economy, by going cashless, that can be avoided. Only 3-4% of Indians are paying tax currently. Moving to cashless economy will reduce tax evasion. Electronic payments will also help plug the leaks in government disbursement systems that drain precious resources away from the intended recipients. 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. The estimated savings from such a model are enough to boost the country's welfare spending by 25 per cent, or increase the per capita income of every poor household in India by 15-20 per cent.

Challenges

More than half of the population does not fall in any banking network. They have to depend upon hard cash for meeting their basic needs. In India there are approximately 450 million internet users. The internet penetration rate is just 27% which is very low compared to countries like Nigeria, Kenya, and Indonesia etc. It has to be at least 67%.

India continues to have low credit card penetration and low debit card activation leading to a poor reach of electronic payments—still in single digits. With debit cards mostly used at ATMs to withdraw cash, it is clear that they are being used more like a substitute to cash than as a true payment instrument. When it comes to security, there is no fool proof technique to stop cyber attacks or fraud .

Only 17% of Indians use smart phones and only 15 % of Indians have internet on their smart phone. So it will be only 154 million people with broad band on their smart phones, which is very low to become a cashless economy. The internet loading speed is very slow. The average page load time in India is 5.5 seconds whereas in China is just 2.6 seconds.

In India there are only 1.46 million PoS machines. It means only 856 machines per million people which is very low compared to China where it is 4000 machines per million people.

Government Initiatives

To overcome these challenges and to make India a cashless digital economy government has to be inclusive and include all sections of society before they go for a cashless economy.

- Government is also promoting mobile wallets.
- 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

- Aadhaar now serves as a link between the government and the people, making it easy both for the authorities to transfer payments to the correct individual's bank account.

Conclusion:

People in India are habitual to cash transactions. It is very difficult to shift them from a currency dominated economy to a digital economy. India lacks infrastructure for a cashless economy. So it is going to be long time when India thinks of becoming a cashless economy. The existing systems are clearly unable to keep pace with the needs of India's population. Customer is ready to go digital provided banks offer user-centric solutions. If the government were to make the switch to electronic payments, the savings in one year alone would be enough to pay for the entire cost of setting up the system. 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 by suitable plans and policies 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.

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