
CASHLESS INDIA: DREAM OF FUTURE INDIA

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Abstract

India is going cashless...and here's why. Over the last decade mobile technology has flourished throughout the developing world much faster than any other technology. The latest offspring of mobile technology is mobile money. Mobile money is allowing millions, the 'unbanked population' (especially in the developing countries) to safely transfer money and pay bills without the hassles of handling cash. The exploded adoption of smart phones due to declining ASP (Average Selling Price) is resulting in an enormous surge in the number of mobile internet users in India. According to the latest report from IAMAI, titled Mobile Internet in India 2016, the country is estimated to have 371 million mobile internet users by June 2016. India will attract 65 million new mobile internet users coming onboard during the period of six months, ending June 2016. According to the another the previous report from IAMAI, the number of total internet users in India will reach 462 million mark by June 2016, a 31% YoY growth during the first half of 2016. The percentage, however, is way below than the estimated 56% YoY growth in the number of mobile internet users in India during the same period. This paper is about future prospects and challenges before India to become cashless economy.

Key words:

Cash Less Economy, Digitalization, Plastic Money, Mobile Money

Introduction

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. 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. Reducing Indian economy’s dependence on cash is desirable for a variety of reasons. India has one of the highest cash to gross domestic product ratios in the world, and lubricating economic activity with paper has costs. According to a 2014 study by Tufts University, *The Cost Of Cash In India*, cash operations cost the Reserve Bank of India (RBI) and commercial banks about Rs21,000 crore annually. Also, a shift away from cash will make it more difficult for tax evaders to hide their income, a substantial benefit in a country that is fiscally constrained. To be sure, the government on its part is working at various levels to reduce the dependence on cash. Opening bank accounts for the unbanked under the and adoption of direct benefit transfer is part of the overall idea to reduce usage of cash and increase transparency.RBI has also issued licenses to open new-age small finance banks and payments banks which are expected to give a push to financial inclusion and bring innovative banking solutions. Things are also falling in place in terms of technology for India. The recently launched Unified Payments Interface by National Payments Corporation of India makes digital transactions as simple as sending a text message.

Present scenario of cashless India

A cashless 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. 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. 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. India is one of the most cash-dependent economies in the world with a cash-to-GDP ratio of 12%, almost four times that of fellow BRICS nations Brazil and South Africa. But it won’t be for long if the Indian government has its way. above the age of 15 have used a bank account. Less than 10% have ever used any kind of non-cash pay. India’s infrastructure of payments is growing, but from very modest beginnings. Fewer than 35% of Indians above the age of 15 have used a bank account. Less than 10% have ever used any kind of

non-cash pay-ment instrument. The proportion of payments made in cash is thought to be dropping, but from 2009-2011, growth of bank branches slowed. Check transactions have decreased by more than 20% from a 2008 peak, balanced by an increase in Automated Clearing House (ACH) outlays and payment card transactions. Mobile banking remains a banking product and not a robust retail payments system, with less than 3% of the value transacted by cards in the year ended March 2014

Indian banking system and cashless economy

Most Indian do not have bank accounts and have to travel long distances to access bank outlets. A vast majority of the populace lives in an economy where they are paid in cash While in developed countries, salaries are deposited directly in accounts and money can be moved or withdrawn via channels like ATMs and point of sale devices. However, in developing economies like India , they require a deposit-taking infrastructure to get them into the bank in the first place. ATM locations are far in rural areas and there are security risks such as theft, fraud, etc. while handling in cash. The underprivileged found it difficult to carry out basic financial transactions such as cash-in, cash-out with ease. Transactions in banks and fees toward financial service providers are an expensive affair. A large part of the population is still outside the banking net and not in a position to reduce its dependence on cash. According to a 2015 report by PricewaterhouseCoopers, India's unbanked population was at 233 million. Even for people with access to banking, the ability to use their debit or credit card is limited because there are only about 1.46 million points of sale which accept payments through cards. About 90% of the workforce, which produces nearly half of the output in the country, works in the unorganized sector. It will not be easy for the informal sector to become cashless, and this part of the economy is likely to be affected the most because of the ongoing currency swap. Third, there is a general preference for cash transactions in India. Merchants prefer not to keep records in order to avoid paying taxes and buyers find cash payments more convenient. Although cashless transactions have gone up in recent times, a meaningful transition will depend on a number of things such as awareness, technological developments and government intervention. For instance, mobile wallets have seen notable traction, and it is possible that a large number of Indians will move straight from cash to mobile wallets. A study by Boston Consulting Group and Google in July noted that wallet users have already surpassed the number of mobile banking users and are three times the number of credit card users.

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

- Will reduce real estate prices because of curbs on black money as most of black money is invested in Real estate prices 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 avoided if we become cashless society.
- 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 7 notes is 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.
- 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
- An increased use of 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.

Challenges in making India a cashless economy

Following are the challenges before Indian government to adopt cashless economy :

Infrastructure Issues

1. Number of citizens on mobile: Not all Indians are mobile, leave alone connected. The latest figures from the Indian telecom regulator TRAI show that, [as of 31st July 2016](#) (pdf): India had a teledensity of 83%, with Bihar, Assam, Madhya Pradesh and Uttar Pradesh with teledensity of less than 70%. While state-wise data for wireless teledensity is not available, it won't be very different, since most connections in India are wireless. Note that these are number of

connections, not users, so you will have to discount this significantly, because many users have multiple SIM cards. Proof: Delhi has a teledensity of 234.77%. Urban wireless teledensity is 148%, and rural is 50.72%. Even of the 1,034.23 million connections, 88.88% are active.

2. Number of mobile users who are connected to the Internet: There were 342.65 million Internet connections by the end of March 2016, of which 20.44 million were wired connections. In total, 149.75 million were on broadband (3G + 4G + wireline broadband) and 192.9 million on "Narrowband". Narrowband Internet subscriber base was 192.90 million (2G and wireline broadband). Click here for statewise broadband and narrowband data.

3. daily people online : According to Facebook India MD Umang Bedi, 165 million log on to Facebook on a monthly basis. How many go online daily? Only the telecom operators know.

4. Availability of reliable connectivity: "When we were doing Aadhaar," TRAI Chairman RS Sharma said at an event WiFi in India, around two months ago, "and we said it will be an online infrastructure and identity. People said you are creating an online identity in a situation where connectivity doesn't exist. So there was a huge amount of pressure on us to make it work offline as well. Our view was that we are creating a future-proof identity infrastructure. We don't want an infrastructure which becomes useless tomorrow. The future is online. The future is a connected world." But the future isn't now, and RS Sharma knows that: "Today with Aadhaar," he added, "I keep getting complaints that there isn't a tower in a place and therefore we weren't able to authenticate. Therefore, connectivity is a very very serious problem."

5. Availability of user devices: According to Idea Cellular CEO Himanshu Kapania, there are currently over a billion mobile phones in India: around 850 million feature/smartphones, and 150 million LTE enabled phones. That number of people with a smart phone using data is probably around 60% to 70%.

6. Merchant acceptance: India had 712.5 million debit cards, and 130.53 million transactions, as of August 2016. That's around 18 transactions for every 100 cards. Credit Cards? Only 26.38 million in India as of August 2016, accounting for 83.95 million transactions.

7. Payment and mobile network capacity: With the increase in usage of cards and online payments is that somewhere in the value chain, banks and/or payment gateways were not in a position handle the load. Transactions failed.. At present, there isn't sufficient capacity for the escalation in usage if everyone

8. For digital transactions, you need to get a user to scan a merchant QR code, authenticate with a PIN (ideally). Or, you need the merchant to send a payment link to a customer, for the customer to receive it, open a page, type in details and complete a transaction. Then wait for the merchant to receive a confirmation of the transaction before you can leave.

9. Security issues: The weakest security link in any transaction is not the technology system, but the user, and their lack of understanding of security issues. To get a sense of this, to withdraw money from ATM's, some people were giving others their card and PIN numbers.

10. No privacy with cashless: a switch to cashless means that each and every transaction is tracked and documented. This is great for governance, with taxation, but there is no protection for citizens, as to who owns that data, whom they can share it with, and how it will be utilized. enabled in Indian languages. Mobikwik has done English and Hindi. PhonePe works in English, Hindi and Tamil. However, most.

11. Language compatibility: Paytm has recently updated their application with some features mobile handsets don't have an Indian language interface, as don't most applications and services. Ola is available in Indian languages only for drivers, not passengers. Apart from Snapdeal, no ecommerce company tried going the Indian language way. There's a part of the population in India which still isn't able to read and write, leave alone being able to read and write English, while we don't have phones that are in Indian languages and apps that aren't in Indian languages. The digital divide here is massive. Physical notes are a visual medium of exchange.

12. Interoperability issues (between payment systems): cash is interchangeable: you don't need a connection, an application or an account to exchange cash. Here, you have a situation where State Bank of India doesn't allow payment into a Paytm wallet via netbanking, or wallet to wallet transfer isn't allowed. There's the Unified Payments Interface, set up by the bank owned group NPCI, where the Reserve Bank of India has not allowed wallet to wallet transfers.

13 Merchant costs: Merchants need a working Internet connection to accept digital payments. They need to pay a monthly rental for a machine, or a Smartphone with an application to accept payments. On Credit cards, merchants are charged a merchant discount rate (MDR), an inter-bank exchange fee, of 2.5-1.7% per transaction. On debit cards, they need to pay 0.75% per transaction below Rs 2000 and 1% for transactions above Rs 2,000. For UPI, merchants are charged 0.75% per transaction plus other costs (on par as debit cards.): You need a Smartphone, an Internet connection and/or have to pay USSD charges (Rs 0.5 per session) and data charges when applicable.

Measured to encouraged to go cashless

A material 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. Implementation of the goods and services tax, for example, should encourage businesses to go cashless. Government should also use this opportunity to revamp the tax administration, as more than taxes, small businesses fear tax inspectors. 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.

Giving an indirect tax rebate for using cashless methods of payment, which brings parity between cash and cashless. Even online, merchants can be incentivized to charge less for digital payments, and more for cash on delivery. Licensing of Payment banks should be increased and Government should promote 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..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. Abolishment of government fees on credit card transactions; reduction of interchange fee on card transactions; increase in taxes on ATM withdrawals can also encourage cashless transactions. Making Electronic payment infrastructure must be made completely safe and secure so that incidents of Cyber crimes could be minimized and people develop faith in electronic payment system. 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. Other steps that can help India go cashless are:

- 1) Increasing internet speeds,
- 2) Creating more employment so that people can buy stuffs needed for electronic shopping,
- 3) Advancing markets and providing electronic swapping machines to small shopkeepers along

with training to operate it,

4) Spreading awareness about modern online services in simple language so that people can understand it properly,

5) Simplifying procedures and providing websites in simple local languages too.

Conclusion

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. Cashless idea can work when everybody is under one roof. Here in India some people are well educated while others are thumb users. How can we use this system. Also it keeps track of a person's spending isn't it an attack on the privacy of a person's life. We live in a country where some people don't even know how to use mobile phone. This system should be like of net banking . It should be at the discretion of the account holder whether to use this payment option or not. It should not be made mandatory. For the concept of a cashless economy to be true in India, the centre, the state as well as the local governments have to work a lot to ensure that: First, every person is financially included in the mainstream. Second, there has to be the availability of the option of paying with cashless methods at the grass root level. Third, there is a need to ensure the safety and security of the cashless transactions. The idea of cashless economy itself is great but all these problems and potential threats have to be taken into account.

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