

INDIAN ECONOMY JOURNEY: CASH TO CASHLESS

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Abstract- India is an ardent effort to move towards a cashless transaction economy by minimizing the use of physical cash. In a cashless economy, unlike the traditional system, no coin or bank note is used to conduct the financial transaction. Electronic representations of money replace traditional currency where the transaction can be done through transfer of digital information. It includes e-banking (Mobile banking or banking through computers), debit and credit cards, card-swipe or point of sales (POS) machines and digital wallets. In Sweden, 99% of payments are conducted without cash which is a perfect model of cashless economy. The ambitious mission of government of India to drive India towards a cashless economy was boosted with the announcement of demonetization on November 8, 2016.

Key Words Cashless Economy, Digitalization, Demonetization.

1.INTRODUCTION

Cashless is a word which literally means having no cash but in today's world, it refers to using digital form of payments instead of cash for payment of various expenses or transactions done by the individual.

What is a cashless economy?

A system where no physical cash is in circulation is a cashless system. Payments are made through credit and debit cards, bank electronic fund transfers or virtual wallets.

According to the website of cashless India, the Digital India programme is a flagship programme of the Government of India with a vision to transform India into a digitally empowered society and knowledge economy. "Faceless, Paperless, Cashless" is one of professed roles of Digital India.

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1.1 Two years after demonetization: Cashless India still a distant dream

On 8 November, India commemorated the second anniversary of the hurriedly-announced demonetization campaign, which even after two years,

is the cause of an unending debate on its pros and cons. One of its stated objectives of the unprecedented move was transformation of India into a cashless economy to check on black money. The government set an ambitious target of 25 billion digital transactions for the year 2017-18. However, data from numerous government sources show that the aggregate volume of digital transactions using Real Time Gross Settlement (RTGS), National Electronic Funds Transfer (NEFT), IMPS, National Automated Clearing House (NACH), Cheque Truncation System (CTS), mobile wallets, Prepaid Cards (PPI), UPI and the Point of Sale transactions using credit and debit cards for the year 2017-18 adds up to 15.83 billion. With about 95 percent of transactions in India still cash-reliant, 'Cashless India' is still a distant dream.

Cashless isn't yet King

Month	UPI		Debit+Credit Cards	
	Volume (m)	Value (₹ cr)	Volume (m)	Value (₹ cr)
November 2016	0.3	90	205.5	35240
December	2	700	311	52220
January 2017	4.2	1660	265.5	48120
February	4.2	1900	212.3	39150
March	6.2	2390	229.7	41620
April	6.9	2200	231.1	43140
May	9.2	2770	233.4	45080
June	10.2	3070	232.4	46820
July	11.44	3381	237.6	43933
August	16.6	4130	243	45710

Source: RBI

India's cashless economy remains a far-fetched dream even after two years of demonetization.

Digital transactions, the motive behind Prime Minister Narendra Modi's 2016 note ban, lagged behind in most of the past 22 months, data released by the Reserve Bank of India (RBI) showed month after month. The latest figures for September showed a 2% decline in overall electronic transactions from August. But the decline just doubled, at 4%, in September as compared to July.

The total digital transactions in September stood at Rs. 227.9 lakh crore, down from Rs. 232.4 lakh crore in August, according to the data. Electronic transactions in the country were worth Rs. 237.5 lakh crore in July.

Digital space comprises credit and debit card transactions and transactions through unified payments interface (UPI), unstructured supplementary service data (USSD), prepaid payment instruments (PPIs) and internet banking.

The data showed transactions had come down through all these modes. The RBI statistics covers the methods of payment used in retail transactions across the country.

Transactions via credit card fell close to 4% in September compared to August, while transactions via debit card fell around 3%.

Buying and selling by PPI instrument fell by a whopping 38% in September from that of August, according to the data.

Transactions through mobile wallet, too, came down by over 3%. Usage of PPI, such as mobile wallets, had seen an increase in the beginning of the year. Thereafter, these transactions have been on a decline. According to analysts, major mobile wallet companies may still be facing problems with their Know-Your-Customer (KYC) norms.

Credit and debit card usage at point-of-sale (PoS) machines, too, witnessed a decline in September and followed the past month's trend. While credit card usage at PoS came down by nearly 4%, that of debit card usage at PoS was down more than 6%.

Digital transactions fell in terms of volume as well as their value, the data showed. Although there was no mention of UPI transactions in September, previous data showed they have received a boost after BHIM app was launched by the prime minister a month after demonetization.

An earlier data had shown that UPI transactions had crossed two billion till the end of October, transferring a total of Rs. 3.42 lakh crore.

2. Objective of Paper

- To study the concept of digital India .
- To find out the importance of cashless India," Digital India programme "
- To study the effects after demonetization and revolution of cashless system
- To find out the challenges and prospects of cashless economy

3. Research Methodology

The study focuses on extensive study of Secondary data collected from, offline annual reports, magazines government reports, publications from various websites which focused on my subject matter.

4. Challenges and prospects for cashless transaction economy

Government's demonetization drive is also supposed to benefit cashless economy. Still there are several curbs as well as prospects in the journey towards cashless economy.

4.1 Challenges

- Currency dominated economy: High level of cash circulation in India. Cash in circulation amounts to around 13% of India's GDP.
- Transactions are mainly in cash: Nearly 95% of transactions takes place in cash. Large size of informal/unorganized sector entities and workers prefer cash-based transactions. They don't have required digital and fintech literacy.
- ATM use is mainly for cash withdrawals and not for settling online transactions: There are large number of ATM cards including around 21 crore RuPay cards. But nearly 92% of ATM cards are used for cash withdrawals. Only low level of digital payment using ATM cards. Multiple holding of cards in urban and semi-urban areas show low rural penetration.
- Limited availability of Point of Sale terminals and poor transaction culture in POS: According to RBI, there are 1.44 million POS terminals installed by various banks across locations at the end of July 2016. But most of them remains in urban/ semi-urban areas.
- Mobile internet penetration remains weak in rural India: For settling transactions digitally, internet connection is needed. But in India, there is poor connectivity in rural areas. In



addition to this, a lower literacy level in poor and rural parts of the country, make it problematic to push the use of plastic money on a wider scale.

4.2 Prospects

- The JAM infrastructure can encourage digital transaction culture: Large-scale, technology-enabled, real-time Direct Benefit Transfers can improve the economic lives of India's poor, and the JAM Trinity—Jan Dhan, Aadhaar, Mobile—can help government implement them. Over the past year JAM has thickened and spread: Jan Dhan and Aadhaar deepened their coverage at an astonishing rate—respectively creating 2 and 4 million accounts per week—and several mobile money operators were licensed. The JAM infrastructure is spreading to reach each remote corner of the country as well as to every citizen. Almost 24 JDY Accounts, 124 Aadhar identity cards and nearly 90 crore mobile phones. Similarly, 33 million internet users are in India. JAM—the PAHAL scheme of transferring LPG subsidies via DBT. The scheme reduced leakages by 24 per cent and seems to have excluded few genuine beneficiaries. This means that the JAM infrastructure can be used to promote cashless transactions.
- A large number of government transfers direct benefits transfer (DBT) are made through JAM mode. This will help people to get digital transaction awareness.
- The growth in volume and value of transactions using prepaid payment instruments (PPIs) issued by banks and authorized non-bank entities has also been significant.
- NPCI promoted Aadhaar enabled Payment System, IMPS etc. and they have registered big turnover in transactions. Newly launched UPI (Unified Payment Interface) is expected to give a big boost to cashless transactions.
- Number of credit and debit cards are increased to 25.4 million and 691.1 million, respectively. The demonetization drive may encourage people to learn and settle transaction using online.
- RTGS and NEFT volumes increased almost threefold between 2013 and 2016 reflecting

greater adoption of the system by all segments of users.

- As more people start using RuPay debit cards and Aadhaar for digital payments, it will facilitate a less cash economy.
- With increasing mobile banking services, growth in e-commerce and use of mobile payment applications, the use of cash will decrease.

The RBI has made several efforts to promote digital settlements. Most important of them are launch of a regulatory set up for Prepaid Instruments (PPIs). Similarly, encouragement to mobile banking and internet banking will help to reduce the use of physical cash.

5. DIGITAL PAYMENTS METHODS

The Digital India programme is a flagship programme of the Government of India with a vision to transform India into a digitally empowered society and knowledge economy. "Faceless, Paperless, Cashless" is one of professed role of Digital India.

As part of promoting cashless transactions and converting India into less-cash society, various modes of digital payments are available.

These modes are:



5.1 GO DIGITAL, GET DISCOUNTS

Service tax: Waiver of service tax of 15% on digital transactions up to ₹2,000.

Fuel: 0.75% discount on digital purchase of fuel through credit/debit cards, e-wallets or mobile wallets.

Rail tickets: 0.5% discount on monthly and seasonal suburban railway tickets from 1 January 2017. Online rail ticket buyers get up to `10 lakh free accident insurance too.

Highway toll: 10% discount on NH toll payment via RFID or fast-tags in 2016-17.

Insurance: 10% discount by government general insurers on premium paid online via their portals. 8% discount on new LIC policies bought online via its site. POS: Rs. 100 a month is the maximum rent that PSU banks can charge for PoS terminals.

RuPay: Kisan credit card holders to get RuPay Kisan cards.

6. CONCLUSIONS

The collective dream of 1.25 billion Indian citizens to see the country evolve as a 'developed' nation in the world has been the origin of all major developments in the Indian economy over the last few years.

The government is on a mission to digitize the Indian economy. Amendments to the Foreign Direct Investment (FDI) policy to increase FDI inflow. Increased smartphone penetration, implementation of biometric identification system (Aadhaar), Goods and Services tax (GST), real-time payment interface - Unified Payments Interface (UPI) along with financial inclusion measures like 'Jan Dhan Yojna', have been the major pegs of India's digitization story.

Currency in circulation (CIC) has jumped by 19.14 per cent to a record high of Rs. 21.41 lakh crore as on March 15, 2019 from the pre-demonetization level of Rs. 17.97 lakh crore on November 4, 2016, indicating that cash is back in the reckoning in the financial system.

Despite the rise in digital transactions, CIC has increased by over Rs. three lakh crores in the last one year from Rs. 18.29 lakh crore in March 2018, according to the latest data available from the Reserve Bank of India (RBI). If we were to go by data with RBI, cash is still king.

Today, only 6% Indian merchants accept digital payments and roughly 10% consumers used a debit

card last year. 96% of the Indian money is still in the form of cash and India has a hard task ahead to convert this into digital money.

Indians are taking baby steps towards a less cash economy, but a lot needs to be done in the meanwhile. After November 8, many have stopped keeping large sums of cash at home, and at least in the cities people (both young and old) are increasing their usage of electronic payments. Financial inclusion is a big problem in India what with our large unbanked population. If we want to increase the usage of digital modes of payments, the government, regulators, and financial institutions need to come up with solutions that takes care of all sections of the society.

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"In a market like India, where regulations are still evolving, it is imperative that the government and regulators take a long-term view to building a sustainable digital payments market. Regulators need to emphasize awareness on cost of cash and incentivize the use of noncash instruments, while the government needs to shape policy that simplifies KYC requirements, making digital payment transactions more user friendly. Government investments in building merchant acceptance networks, setting up common payments infrastructure and developing a proper framework for grievance redressal are also essential.

However, in the long run it would be interesting to see the impact of cashless-ness in India. It will give the entire transaction trail to the authority which will control the tax evasion and round tripping. We need to keep our fingers crossed to see which side the camel sits. How India will approach this change and how people embrace this change? If all goes perfectly to the plan- this may very much change the condition of finance in India.

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