

IMPACT OF CASHLESS ECONOMY (A DOUBLE EDGE SWORD)

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Abstract: In this article we try to explain what Cashless economy is, what the major advantages of cashless economy are and the challenges of Indian economy will face in moving towards a cashless economy? A comparison with other countries shows that India lags behind its peers in the metrics to measure a cashless economy. The government has announced a slew of incentives to promote cashless transactions as our Prime Minister Narendra Modi announced the recall of old Rs. 500 and Rs. 1,000 notes on 8 November 2016. The increased use of credit cards will definitely reduce the amount of cash that people will carry and as a consequence, reduce the risk and the cost associated with that. Which has a direct impact of it on the economy as a whole.

Keywords: Cashless, Digital India, Payments, Cards, Economy

Introduction

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.

India continues to be driven by the use of cashless 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.

Objective of the study

1. To determine a cashless economy and where does India stand globally
2. To know going cashless how India stacks up
3. To evaluate Challenges in making India a cashless economy

What is a cashless economy and where does India stand

- 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 96.47 billion currency notes in circulation in 2015-16 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.



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.

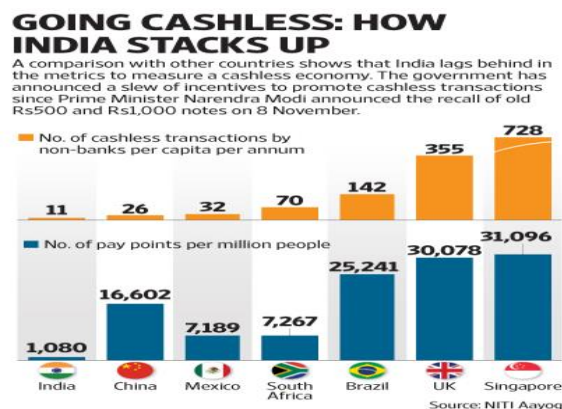
This could be avoided if we become cashless society

- 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.



This will eventually have the following chain effect:

1. **Improvement in credit access and financial inclusion**, which will benefit the growth of SMEs in the medium/long run.
2. **Reduce tax avoidance** and money laundering thanks to the higher traceability of all the transactions.
3. The increased use of credit cards will definitely reduce the amount of cash that people will carry and as a consequence, reduce the risk and the cost associated with that.

Challenges in making India a cashless economy

- Availability of internet connection and financial literacy.
- Though bank accounts have been opened through Jan Dhan Yojana, 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 behavior by the banks.

Steps taken by RBI and Government to discourage use of cash

- Licensing of Payment banks

- Government is also promoting mobile wallets. Mobile wallet allows users to instantly send money, pay bills, and recharge mobiles, book movie tickets, and 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.
- What else needs to be done
- Open Bank accounts and ensure they are operationalized.
- Abolishment of government fees on credit card transactions; reduction of interchange fee on card transactions; increase in taxes on ATM withdrawals.
- Tax rebates for consumers and for merchants who adopt electronic payments.
- Making Electronic payment infrastructure completely safe and secure so that incidents of Cyber crimes could be minimized and people develop faith in electronic payment system.
- Create a culture of saving and faith in financial system among the rural poor.
- 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.
- 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.
- 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.

Myths on cashless economy

It is a myth that an advanced society must necessarily be cashless. In Germany, a country which knows the perils of authoritarianism, more than 80% of transactions are in cash, as citizens safeguard their privacy and freedom. Even in the US, 45% of transactions are in cash. Note that Germany and US actually have the banking and technological infrastructure to enable cashlessness. In India, 600 million people have no bank account, and less than 20% of all Indians have a smartphone, Internet penetration is wif, as is power. (By 'power', I mean electricity, not the government's control over you.) Trying to make India cashless is akin to putting a bullock cart in an F1 race, and whipping the driver because he's too slow.

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. 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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