

From a Cash Economy to a Less-Cash Economy

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Digitising financial transactions can prove to be an effective means of curbing the large parallel economy in India. It would make bookkeeping easier and increase the tax base, and substantially reduce the need to carry cash and the risk of physical theft

On 8 November 2016, the government demonetised currency notes of two denominations: Rs 500 and Rs 1000. Together, currency notes of these denominations had accounted for more than 85 per cent of the total value of banknotes in circulation. Demonetisation caused a cash crunch and forced the government to push for electronics payments and transfers. Though the main pitch of demonetisation was towards curbing financing of terrorism and eliminating black money, a major shift towards a cashless economy emerged as a necessity. In fact, in his ‘Mann Ki Baat’ address to the nation on 27 November 2016, Prime Minister declared, ‘Our dream is that there should be a cashless society. This is correct that 100 per cent cashless society is never possible. But we can make a start with a less-cash society, and then cashless society will not be a far-off destination.’

Although the narrative of demonetisation has changed, the government has been sowing the seeds of a cashless economy. First, in 2014, the government launched the Jan Dhan Yojana in 2014; as on 20 April 2016, nearly 220 million accounts had been opened. In February 2016, the Government of India approved the guidelines for promoting payments

through cards and digital means. A massive change from the informal cash-carry system to a formal financing payment system will give an impetus to the payments and settlement system in India. The best way to reduce corruption and black money in the economy is to move from an economy dependent predominantly on cash to electronic transfers, which needs universal banking access and facility.

A cashless economy runs on credit or debit cards, electronic funds transfer, or online shopping instead of cash. The idea of a cashless economy is actually a revolution from the fiat money to digital money, generally adopted with the aim of curbing the flow of black money and increasing transparency of the flow of cash. All transactions are made with cards or through digital means—whether one has to pay bills, buy fruits, or take a bus or taxi ride. Just like traditional pocket wallets, e-wallets do not require cash in its physical form; these are linked to one’s bank account and payments are directly deducted from it. Internet banking and the recently launched Unified Payment Interface (UPI) are other products of technology that are directed towards going cashless, but e-wallets are the most prevalent and widely used. In fact, it is being opined that in the near future even credit and debit cards will become redundant as all transactions would be made possible through a

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Cashless Transactions: The Smart Way

smartphone, and a mobile phone code would be sufficient to withdraw cash at ATMs, and there would be no need for a card.

Advantages of a Cashless Economy

The Indian economy is one of the fastest growing economies in the world, but it suffers from issues like black money, corruption, terrorism, illicit wealth, etc. To break the grip of corruption and black money, there have always been various ways like auditing and enforcement agencies, but the idea of cashless economy is more appealing, as most economic transactions would be part of the formal system and easy to track. In India, few use non-cash payment methods; only 10-15 per cent of the population is estimated to have ever used any kind of non-cash payment instrument, compared to 40 per cent of people in countries like Brazil and China. Meanwhile, as of 2014, India's ratio of currency in circulation outside of banks to GDP was 11.1 per cent, higher than other emerging economies like Russia, Mexico, and Brazil. This indicates ample scope for strengthening the base of the untapped non-cash user market. Increasing the horizon of non-cash users along with convenient, reliable, secure, and affordable payment systems will have implications for access to other financial services such as loans and insurance to the unbanked, particularly in light of the financial inclusion initiative. However, the challenge is to strengthen the digital infrastructure of banks and to make transactions safe.

Cashless society offers the government and the public many advantages.

- **Convenient Mode of Payment:** The ease with which every transaction can be carried out certainly promotes going cashless. The cashless economy offers everyone (apart from low-income groups) enormous benefits, including reduction in transaction cost of carrying and doing business/transactions in cash.
- **Lower Risk:** With proper cybersecurity, online payment is relatively risk-free, whereas there are always safety issues with physical cash.
- **Reduction in the Cost of Printing Money:** Printing of new currency notes and replacement of soiled and mutilated currency notes involves cost. In 2015, printing currency cost the RBI Rs 27 billion. The cost can be reduced if the economy moves towards a cashless economy.
- **Decrease in Crime Rate:** Many anti-social and illegal activities like drug trafficking, prostitution, financing of terrorism, and money laundering are carried out only in cash. A cashless economy will make it difficult to carry out such operations.
- **Good for the Banking Sector:** A digital economy will help the

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banking system. Once people get used to digital payment and transfers, there would be less demand for cash holding or cash hoarding; this would leave more cash in the banking system and thereby enable more savings.

- **Transparency and Monitoring:** Cashless transactions can be easily monitored by the government. Therefore, tax evasion would be difficult and would enhance revenue collection.

The past two months have witnessed a significant increase in the digitisation of transactions in India and in installations of swipe machines, be it at small shops or by street vendors. There has been a rise in the quantum of e-transactions, enabling speedy payments, which is good news for the economy. Mobile wallets have seen a formidable rise, and it is quite possible that a large number of Indians will move straight from cash to mobile wallets. MobiKwik claims it will easily hit \$10 billion in payments volume by 2017 and will soon be accepted by over a million merchants.

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However, the flip side of moving towards a cashless economy in a developing economy like India is that for poor people, cashless transactions are just not practical. Demonetisation has particularly hit the informal society and unbanked community. This section of society would need longer to adapt to move to a cashless society. The mode of transaction might seem difficult to adopt initially but it will ensure that

the country takes its first step towards a transparent economy. The end of cash may seem like fancy thinking but certainly cash is on its way out.

Towards a Cashless Society

Soon after demonetisation, government took a variety of steps to motivate people and seek their attention towards various digital modes to be adopted so that people do not have to stand in long queues either outside a bank or an ATM when there was a cash crunch.

- Lucky Grahak Yojana for consumers and Digi Dhan Vyapar Yojana for merchants:
- With the aim of incentivising digital payments, the government on 25 December 2016 launched digital lottery schemes—Lucky Grahak Yojana for consumers and Digi Dhan Vyapar Yojana for merchants. With incentive schemes like these, the Digital India movement will certainly strengthen the country's economic backbone. Only transactions processed through RuPay cards, Unstructured Supplementary Service Data (USSD), UPI, and Aadhaar-Enabled Payment System are part of the schemes.
- **Vittiya Saksharta Abhiyan:** The Vittiya Saksharta Abhiyan has been launched to encourage people to adapt to a digital economy and cashless modes of transaction. The main purpose of this campaign is to create awareness and to encourage the people and to motivate them to go digital. The Ministry of Human Resource Development appealed to the people to use a digitally enabled cashless economic system for funds transfer. It also appealed to private and government institutions of higher studies to receive and pay nothing in cash, and develop a cashless campus (shops, canteen, and services). This appeal motivated students, faculty, and staff members of many educational institutions

to participate in accomplishing this challenging task. Also, many people have enrolled at the webpage launched by the HRD Ministry and the positive feedback and suggestions show the enthusiasm among the people.



Getting Familiar with Cashless Purchases

- **BHIM (Bharat Interface for Money):** On 30 December 2016, the Prime Minister launched a new e-wallet app, BHIM, to make it easier to transact online. The Aadhaar-based mobile payment application will allow people to make digital payments directly from their bank accounts. One's phone number is linked with the bank account and hence can transfer money at the click of a button. However, though the app can be synced with UPI-enabled bank accounts, only one UPI-enabled account can be added to BHIM. A person with two bank accounts will have to switch between the two to perform UPI transactions on both accounts.
- **RuPay:** RuPay is an Indian version of a credit or debit card and similar to international cards such as Visa or MasterCard. The National Payment Corporation of India (NPCI) launched RuPay under the Jan Dhan scheme. Banks provide every account holder a RuPay debit card with Rs 1 lakh accident insurance. RuPay works on three channels (ATMs, point-of-sale (POS), and online sales) and is the seventh such payment gateway in the world. Since crores of poor people have a RuPay debit card, this is an effort to involve lower-income groups in the cashless economy. However, the primary focus of RuPay is financial inclusion and it needs to match all the policies and standards of credit/debit cards to be a world-class financial product.
- **Aadhaar Payment App:** On 25 December 2016, government launched an Aadhaar payment app; it links the Aadhaar Card of an individual to his/her bank account. This application will be connected to a biometric reader and customer will enter the unique Aadhaar number and choose a bank for the transaction. One special feature is that this app can be used by a person to make payments without any phone.

The Sweden Experience

Sweden is one of the top five cashless economies in the world. It has already adopted effective policies to facilitate transactions using mobile or plastic payments through digital infrastructure. Sweden is the first country to promise to go 100 per cent cashless by 2020, and leads the race to become a cashless society with banks, buses, street vendors, and even churches expecting plastic or virtual payments. According to the central bank (the Riksbank), cash transactions made up barely 2 per cent of the value of payments made in Sweden in 2016, and the figure is expected to drop to 0.5 per cent by 2020. Around 900 of Sweden's 1,600 bank branches no longer keep cash on hand or take cash deposits and many, especially in rural areas, no longer have ATMs. Circulation of Swedish krona has fallen from around 106 billion in 2009 to 80 billion in 2016.

Technology plays an important role when we talk about the policy shift from cash to cashless. *Swish* (a mobile app owned by six Swedish

banks, and the result of a collaboration between several major Swedish and Danish banks) has seen huge uptake in Sweden. The app allows users to make real-time transactions from their bank account to another, whether they are at a restaurant, in a cab, or at the flea market. The user base of *Swish* has grown by 1,20,000 users per month. In December 2014, over 1.69 billion kronor got transferred using the *Swish* app. The company expects to have three million users by the end of 2017.

However, there are huge differences in terms of base and other crucial dimensions. As on 31 December 2015, the population of Sweden was estimated at 9.85 million people; literacy was almost 100 per cent. India had a population of 1,260 million; literacy was only 75 per cent. The population of illiterate people in India was almost 30 times the entire population of Sweden. Per capita income is 435 per cent of the world average in Sweden but 14 per cent in India. In India, 68 per cent of the population lives in rural areas; in Sweden, 85.5 per cent of the population is urban. It is difficult for India to think along the lines of Sweden; nonetheless, India has come up with an app called BHIM, although large-scale adoption has not happened yet, and a large section of the Indian population is unfamiliar with the technology. The RBI and commercial banks need to come up with an innovative idea that enables cashless transactions and makes them safe and easy to perform.

In India, greater adoption of the real time gross settlement system (RTGS) and the national electronic fund transfer (NEFT) by all segments of users increased volumes almost threefold between 2013 and 2016, and the volume of mobile banking transactions increased nearly sevenfold. Both ATM and POS card transactions have grown significantly, and POS debit card usage has picked up significantly. Clearly, banks have been widely adopting the non-cash payment mode to meet the objective of making transactions faster, improving

efficiencies, and tackling the growing burden of government welfare services through bank accounts (subsidies to LPG consumers, MNREGA payments). Notwithstanding, less than 5 per cent of all payments are electronic; India continues to be driven by the use of cash.

Challenges Ahead

Demonetisation has encouraged the entire economy to use less cash but has left various challenges for the people and also for the government. There is unanimous agreement on the need to go digital. But can this be achieved without proper infrastructure? In rural areas, there are only 20.8 per cent of ATMs of public sector banks and of the State Bank group) and 8.5 per cent of the ATMs of private sector banks. It is difficult to find an ATM in a rural area. E-wallets and mobile payment systems need a smartphone and an internet connection, but less than a quarter of the population owns a smartphone, a fast and reliable internet connection is expensive and difficult to find, public wi-fi hotspots and mobile phone battery charging stations few and far between, and cybersecurity remains a key concern. How can one be sure that swiping a card at small shops and vendors is risk-free and the details shall remain confidential? If a card is cloned, it might take several years for a person to recover his hard-earned money. In October 2016, more than 30 lakh debit cards were feared to have been exposed at ATMs and customers were told to change their PIN. A month later, when demonetisation led to a sudden surge in card transactions, the network was overloaded, card machines stopped working, and people had to queue long hours.

The government has consistently argued that the main purpose of demonetisation is to fight corruption. In a democratic system of government, political party funding is one of the major sources of corruptions. In fact, high-level corruption does not involve cash. Therefore, any attempt at fighting corruption that does not first involve bringing transparency to the funding of

political parties cannot be meaningful or successful. From educating people in rural areas to improving infrastructure and logistics, the government will have to spend a lot of time in deciding policies to overcome these flaws. India will not turn cashless overnight; first, the government will have to consider the problems people face and then how to overcome them.

Conclusion

Achieving a 100 per cent cashless society will never be possible, but one can always start from a less-cash society and then move towards becoming mostly cashless. The move towards a mostly cashless society is extremely incremental. Though cash will still play an important role for discrete transactions, especially in the most remote areas and informal sector, even these transactions can be automated. With upcoming technology, it is possible to design applications where the most informal purchase can be automatically debited from the buyer's bank accounts. Also, if cash in circulation decreases, and most transactions are digital, people will tend to hold less cash and hence interest forgone earlier for holding cash would decrease. Digitising financial transactions can prove to be an effective means of curbing the large parallel economy in India. It would make bookkeeping easier and increase the tax base, and substantially reduce the need to carry cash and the risk of physical theft. Fake currencies and their use will fade away, and money laundering will go down. While going digital facilitates the tracking of financial transactions, it also increases the cost. IT infrastructure would be required on a grand scale, which India severely lacks even after 70 years of independence. However, move towards less cash economy depends on how effectively we deal with issues like cyber security, online frauds, financial inclusion into the formal banking sector, awareness campaigning and proper redressal system. □

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