

CASHLESS INDIA: CHALLENGES AND BENEFITS

Abstract: *The cashless economy means a economical system in which there is a little or very less use of cash for doing the transactions. In cashless economy, the exchange of goods and services are done through electronic mode such as debit card, credit card, electronic wallets and net banking etc. the objective of this paper is to highlight the challenges and benefits of cashless economy to the public. The methodology used in this research paper is Descriptive Research.*

The result revealed a cashless society in wake of the negative and fraudulent practices that are associated with cash, something that can be fixed by adopting a new, smart, innovative and hassle-free model that simplifies the exchange of money without attaching any tangibility to it.

1.Introduction

It is said that change is the only thing that is constant. We see change in almost every sphere of life surrounding us. The exchange of goods and services and commerce has come a long way from the times of the barter system to the modern currency system. Despite the fact that a transition to a cashless society is already happening, there is reluctance among the high echelons of power to switch over to the completely cashless economic system as it decentralized the power from their hands. However big banks and credit card companies are likely to be ardent supporter of this revolutionary idea. While with the first impression, it seems to be impossible to do the transaction without cash. In developed economy like U.S and U.K. etc, transaction involving cash account for 3 to 7% of total transaction.

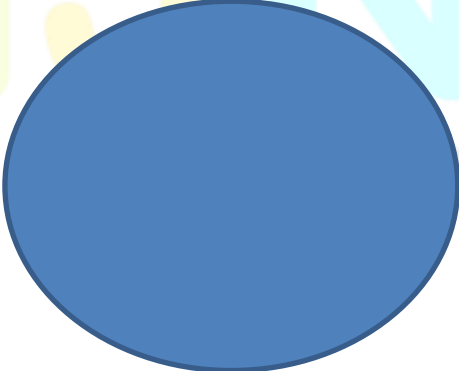
India needs to take many steps to encourage digital payments and discourage the use of cash in transaction. In the era of modernization and cut throat competition the Cash is the biggest enemy for us. Greater use of digital payments will save trillions of rupees for the Indian economy as it will help bring down the cost of cash.

According to the report of *Accelerating the Growth of Digital Payments in India: A five-year outlook* “The challenge of transitioning India to a less-cash society over the next five years and outlines an action roadmap for lowering the cost of cash to 1.3% of gross domestic product from 1.7% now”

Increasing the volume of electronic payments provides numerous benefits to nation:

1. **Drives Economic Growth**
 - i. Increased card penetration can increase GDP
 - ii. Shift from cash payment reduces social costs
2. **Increases financial inclusion**
 - i. Greater acceptance of e-payments provides an on-ramp to financial inclusion
 - ii. Requires an enabling regulatory framework
3. **Reduces the shadow economy**
 - i. Cash enables and perpetuates shadow economies
 - ii. Electronic payment penetration correlates to size of shadow economy
4. **Enables digital commerce**
 - i. Electronic payments facilitate trusted transactions online
 - ii. Reduction in cash payments enables e-commerce growth, although in India cash-on-delivery has played an important role.

\$Billion, 2011-2016

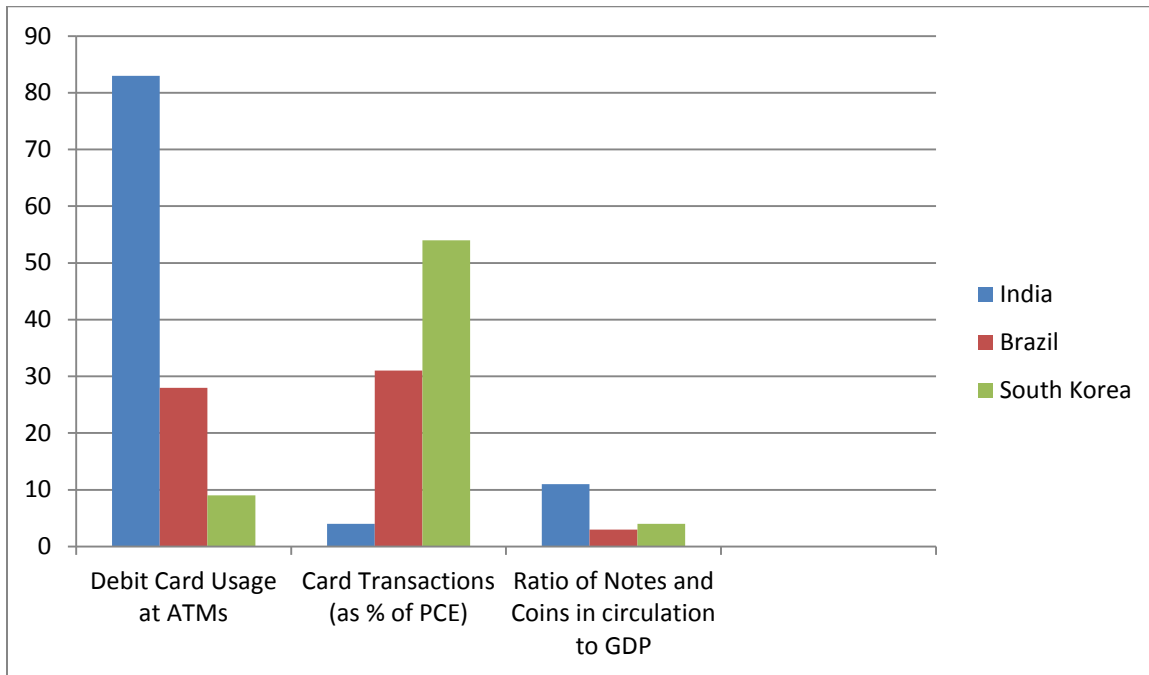


As per the chart there is 16 countries and India is on the 9th position, whose card penetration is \$ 6.1 Billion from year 2011 to 2016(May). The most card using country is United State whose penetration is \$ 81 Billion, which is more than 13 times to India, and followed by Russia, Brazil and China with a penetration of \$ 25.9 Billion, \$ 18 Billion and \$ 17.8 Billion respectively.

Perpetuates use of Cash in India

1. **A high propensity to save in and use cash:** Cash saving range from **40%** (of saving) in **urban** India and **27%** in **rural**; cash intensive supply chains require many merchants to transact in cash; there are no charges for up to three ATM transactions in a month.
2. **A large shadow and remittance-based economy:** India's shadow economy is around **19%** of its GDP; more than **60%** of remitted funds through official remittance channels is for day-to-day use largely in cash; cross-border inbound remittances touched **\$ 70 Billion** in year **2015**.
3. **Gender imbalance in use of digital payments:** only **.38%** of women over 15 used internet payments as opposed to **2.04%** of men.
4. **High cost of acceptance infrastructure:** Cost of point-of-sale terminals, and operating costs of maintaining these are still high.
5. **Regulatory limitations:** Reducing the merchant discount rate on debit card transaction has not helped
6. **Insufficient focus on financial literacy:** There is a huge dormancy even in accounts opened under financial inclusion schemes on account of poor financial literacy.

Comparison of India and its peers on key cash-use metrics(2014)



Card transactions are represented as a percentage of personal consumption expenditure (PCE) for year 2015

How to Accelerate Growth of Digital Payment

1. **Expend Acceptance:** A country's approach to expanding acceptance will depend upon its readiness for electronic payments. Market readiness can be classified according to levels of...
 - i. Acceptance Penetration:
 - a. Number of accepting merchants
 - b. Number of acceptance points (per population)
 - ii. Consumer Adoption:
 - a. Access to electronic payment methods
 - b. Frequency of uses

Acceptance Penetration

		Low	High
Consumer Adoption	High	<p style="text-align: center;">Transaction (Limited Acceptance) 1. Progression along acceptance development lifecycle 2. Electronic payments not yet used for everyday spend</p>	<p style="text-align: center;">Electronic 1. Electronic payments are "top of wallet". 2. Specific niches of cash payments remain</p>
	Low	<p style="text-align: center;">Cash-centric 1. Heavily dependent</p>	<p style="text-align: center;">Transaction (Limited Consumer adoption) 1. Progression along acceptance development lifecycle 2. Need to demonstrate utility of electronic payments</p>

Upon cash payments
2. Early stage of electronic payments ecosystem

2. Energize Innovation:

- i. Establish an acceptance development fund of Rs 1000 crore to increase acceptance of digital payments in under-penetrated categories
- ii. Fiscal incentives
- iii. Introduce new regulations on mandatory digital payments in certain cases, reduce import duties on payment infrastructure; and make digital payments of salaries mandatory
- iv. Allow foreign companies to participate in the digital payments ecosystem independently and develop a repository to track payment history of customers

3. Bolster Financial Participation:

- i. Facilitating inter-ministerial collaboration at the center and engagement with states to leverage existing programs and platforms.
- ii. Designing programs tailored to meet the needs of various types of underserved segments such as women and farmers.
- iii. Strengthening efforts to promote financial participation at the last mile, working microfinance institutions in different states
- iv. Crafting approaches to inculcate financial literacy programs at the school level and in higher education and as part of public service education
- v. Introducing certification standards and constructing innovative models for business correspondents

BENEFITS OF GOING CASHLESS

Convenience

The ease of conducting financial transactions is probably the biggest motivator to go digital. You will no longer need to carry wads of cash, plastic cards, or even queue up for ATM withdrawals. It's also a safer and easier spending option when you are travelling. "The benefits are enormous if you leave out the low-income group, which will face a huge challenge," says Kartik Jhaveri, Director, Transcend Consulting. "For the rest of the country, it is constructive and simple.

It will be especially useful in case of emergencies, say, in hospitals," he says. Adds Jayant Pai, Head, Marketing, PPFAS Mutual Fund: "You have the freedom to transact whenever and wherever you want. You don't have to be physically present to conduct a transaction or be forced to do so only during office hours."

Discounts

The recent waiver of service tax on card transactions up to Rs 2,000 is one of the incentives provided by the government to promote digital transactions. This has been followed by a series of cuts and freebies. It's a good time to increase your savings if you take advantage of these. For instance, 0.75% discount on digital purchase of fuel means that the petrol price in Delhi at Rs 63.47 per litre can be brought down to Rs 62.99/l with digital payment.

Similarly, saving on rail tickets, highway toll, or purchase of insurance can help cut your costs. Add to these the cashback offers and discounts offered by mobile wallets like Paytm, as well as the reward points and loyalty benefits on existing credit and store cards, and it could help improve your cash flow marginally.

Tracking spends

"If all transactions are on record, it will be very easy for people to keep track of their spending. It will also help while filing income tax returns and, in case of a scrutiny, people will find it easy to explain their spends," says Manoj Nagpal, CEO, Outlook Asia Capital. "Besides the tax, it will have a good impact on budgeting," says Pai.

Budget discipline

The written record will help you keep tabs on your spending and this will result in better budgeting. "Various apps and tools will help people analyse their spending patterns and throw up good insights over a couple of years," says Jhaveri. Controlled spending could also result in higher investing. If the same amount of cash does not flow back into circulation and people continue to use mobile wallets and cards, it is also likely to bring down the latte factor. This means that the Rs 10 you spent on candy or chips, or that regular cup of coffee office is likely to take a hit since you will be short of loose change and smaller currency notes. There's a lesser chance of budgetary leaks and unaccounted for spends sneaking into your budget at the end of the month.

Lower risk

If stolen, it is easy to block a credit card or mobile wallet remotely, but it's impossible to get your cash back. "In that sense, the digital option offers limited security," says Pai. This is especially true while travelling, especially abroad, where loss of cash can cause great inconvenience. Besides, if the futuristic cards evolve to use biometric ID (finger prints, eye scan, etc), it can be extremely difficult to copy, making it a very safe option.

Small gains

It may not seem like much of an advantage, but being cashless makes it easy to ward off borrowers. Another plus is that you can pay the exact amount without worrying about not having change or getting it back from shopkeepers.

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.

Rail catering : 5% discount on digital payments for railway catering, accommodation, retiring rooms, etc.

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.

DIGITAL PAYMENT 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 the professed roles of Digital India.

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

These modes are:



Banking Cards



USSD



AEPS



UPI



Mobile Wallets



Banks Pre-paid Cards



Point of Sale



Internet Banking



Mobile Banking



Micro ATMs

DRAWBACKS OF DIGITAL TRANSACTIONS

Higher risk of identity theft

“The biggest fear is the risk of identity theft. Since we are culturally not attuned to digital transactions, even well-educated people run the risk of falling into phishing traps,” says Nagpal. With the rising incidence of online fraud, the risk of hacking will only grow as more people hop on to the digital platform.

Besides, the latest move by the government to remove the two-factor authentication process for online transactions up to ₹2,000, will not help. Irrespective of the size of transaction, the absence of this additional layer of security will expose thousands to the risk of identity theft. Another weak link is the inadequate redressal mechanism. “With the poor redressal system in India, imagine what a poor rickshaw puller will do if he has his Aadhaar ID stolen?” asks Mumbai-based financial trainer P.V. Subramanyam.

“Given the tedious process and poor grievance redressal, people will have no easy recourse if they lose money online,” adds Nagpal. There is no stringent legal process to deal with this kind or scale of fraud. Add to it the mass identity theft from banks’ or companies’ databases and it can turn into a financial nightmare akin to the data breach in the Indian banking system in October this year.

Losing phone

Since you will be dependent on your phone for all your transactions on the move, losing it can prove to be a double whammy. It can not only make you susceptible to identity theft, but you could also be rendered helpless in the absence of physical cash or any other payment option. This can be especially problematic if you are travelling abroad or in smaller towns or villages with lack of banking infrastructure or other payment options. Another drawback is that you need to keep your phone constantly charged. If the phone dies on you, you will be stranded, particularly if you are in the middle of an important purchase or dealing with an emergency.

Difficult for tech-unsavvy

India has a low Internet penetration of 34.8% (2016), according to the Internet Live Stats, and only 26.3% of all mobile phone users have a smartphone (2015), as per Statista figures. Besides the practical difficulty of going digital, “a bigger block is the psychological shift. You are suddenly jumping three generations to the digital medium,” says Pai. Adds Subramanyam: “It’s a problem for the older people, who may suddenly find themselves locked out of their accounts if they can’t download an app or don’t have cash.” The digital medium may prove a challenge for the tech-unfriendly people, who will need more time to adapt or the availability of other options to conduct transactions.

Overspending

While there is no denying the convenience of card or mobile wallet transactions, it could open a spending trap for an unsuspecting population. According to behavioural finance theorists, the pain of parting with money is felt more acutely if you use physical cash instead of a card. Hence, using cash instead of cards or mobile wallet acts as a natural bulwark for people who find it difficult to control their spending. “This is the reason that people could end up overspending, throwing their budgets into a disarray,” says Pai.

Besides, a high penetration of the digital payment system is contingent on the fact that the same amount of cash does not come back into circulation. If it does, people are more likely to switch back to the former ease of using cash as it is a habit that they may find difficult to break.

4. CHALLENGES OF CASHLESS POLICY IN INDIA

4.1 Digital Literacy

More than half of the nation still does not know how to use a computer. People in rural areas still don't know about smart phone. Besides, there is lack of internet facilities and without it a country cannot become cashless. There are still many rural and urban areas where the access of having 2G network is very difficult. Moreover, the cost of Internet access is very high as compared to developed countries.

4.2 Few Banks in villages

The capital city New Delhi alone has about 20 HDFC bank branches. There are several villages and Tehsils that don't even have one. More the banks, more the cash deposits in accounts. Banks in villages should be helpful in teaching the residents the process, usage and benefits of plastic cards.

4.3 Low Literacy Rate

Low literacy rate hinders the accessibility of banking services. Citizens should not only know how to read and write but also possess basic ICT literacy to fully enjoy the benefits of e-payments.

4.4 Language Barrier

Internet is an English based platform. The details on the plastic card are also in English. The message received on mobile regarding transaction is also in English. Therefore, it is required to use multiple languages regarding these processes or make everyone learn English.

4.5 Costly Swipe Machines

Swipe machines are also not subsidy free. It can only be afforded by rich shopkeepers. It can't be expected from an auto driver or a normal grocery seller to afford swipe card machines. Besides, many street vendors, shopkeepers don't know how to use swipe machines.