

CASHLESS INDIA

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Abstract

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.

A Cashless Future is the Real Goal of India's Demonetization Move

"This is a public sector innovation unthought of in history. A cultural-economic revolution in the making!" exclaimed Monishankar Prasad, a New Delhi-based author and editor, about India's demonetization initiative and subsequent drive towards developing a cashless economy.

India is currently in the middle of an all-out movement to modernize the way things are paid for. New bank accounts are being opened at a heightened rate, e-payment services are seeing rapid growth, cash-on-delivery in e-commerce has crashed, and digitally-focused sectors like the online grocery business have started booming.

"I can promise you. If you work 12 hours, I will work for 13. If you work 14 hours, I will work for 15 hours. Why? Because I am not a pradhan mantri, but a pradhan sevak."



Introduction

India's demonetization scheme was a unilateral initiative that was planned in secret — in a back room of hon'ble Prime Minister Modi's home, in fact — by a small group of insiders tied-in with the upper echelons of India's government. The strategy was to instantly nullify all 500 and 1,000 rupee banknotes, the most common currency denominations in the country, and then eventually replace them with newly designed, more secure 500 and 2,000 rupee notes. This endeavor instantaneously became policy when the prime minister announced it via a surprise television address at 10:15 PM on November 8, 2016.

One of Hon'ble PM Modi's main brands is that of a corruption fighter, and his demonetization initiative was rushed into effect in an attempt to catch the black market off guard — which could potentially lead to a big payday for the central bank if large amounts of illicit cash weren't redeemed. That plan flopped, as almost all of the recalled notes were officially accounted for one way or another.

But this surprise demonetization also did something else: it pushed millions of new users onto the country's digital economic grid by virtual fiat. Not even the banks were notified in advance of Hon'ble PM Modi's plan, and, even with strict exchange limits that prohibited people from exchanging over \$60 worth of rupees at a time, they simply didn't have enough of the newly designed banknotes on-hand to distribute to the masses looking to redeem their canceled notes. Rather than being a 50 day transition, as the Indian government projected, it is looking as if it will take four months to a year before the country's currency supply is restored.

Up until this campaign, India was an incredibly cash-centric economy. Cash accounted for upwards of 95% of all transactions, 90% of vendors didn't have card readers or the means of accepting electronic payments, 85% of workers were paid in cash, and almost half of the population didn't even have bank accounts. Even Uber in India accepted cash — the only country in the world where this option is available — and "Cash on Delivery" was the preferred choice of 70% of all online shoppers.



By temporarily turning off the engines which drove the cash economy, India hoped that more people could be brought into the fold by using track-able — and taxable — digital financing vehicles, like debit cards and e-wallets.

The financial technology industry would be unwise to ignore the rise of mobile transaction services, person-to-person networks and the whole range of digital disruption in the payments arena from the likes of Bitcoin, ApplePay and PayPal that undoubtedly is putting pressure on cash.

A report by Boston Consulting Group (BCG) and Google India revealed that last year around 75 per cent of transactions in India was cash-based, while in developed nations such as the US, Japan, France, Germany etc. it was around 20-25 per cent. The depletion in cash due to demonetisation has pushed digital and e-transactions to the forefront; e-banking, e-wallets, and other transaction apps becoming prevalent.

Why Is Cash Required?

The magnificence of cash is that -- it just works; even in the isolated whereabouts of India, where the government might not be present physically with its paraphernalia, its injunction runs in the form of legal tender that public uses for business on an everyday basis. A large informal economy that supports a major part of Indian population and their livelihoods also runs in cash. This is why Cash is yet King.

The ground reality reveals, a majority of transactions in Kirana stores, the go-to shop for daily purchases in India are cash based transactions, because these are generally small ticket transactions. The customers, as well as Kirana store owners feel more comfortable in dealing with cash for small transactions, while these merchants also provide credit facility to customers. However, the governments drive to incentivise consumers and merchants alike to move to electronic modes of payments has not found many takers because our cash driven economy is fuelled through rampant corruption in society and black money. The modus operations for corruption are cash so unless we rid our society of corruption at all levels this will be a huge task. Imagine paying a corrupt official through your e-wallet it will never happen.

The challenge to go digital

A major obstacle for the quick adoption of alternate mode of payments is mobile internet penetration, which is crucial because point-of-sale (PoS) terminal works over mobile internet connections, while banks have been charging money on card-based transactions, which is seen as a hurdle. The low literacy rates in rural India, along with the lack of infrastructure like internet access and Power make things extremely difficult for people to adopt e-transaction route.

The financial safety over the digital payment channels is important for pushing the cashless economy idea. Imagine losing your credit cards or being the victim of digital hackers can lead to a whole host of issues like denied payment, identity theft, account takeover, fraudulent transactions and data breaches. According to the digital security company Gemalto, more than 1 billion personal records were compromised in 2014.

Cash is here to stay!

Despite the numerous State endeavours, India has always been driven by cash; while electronic payments are seen restricted to a small size of the population, compared to the cash transactions. Currently, there is a mix of cash and cashless transactions happening across the country, while many enablers are working towards turning the cashless economy dream into a reality. We have taken big strides towards becoming a cashless economy; however it will take more than a generation to change the habit from cash to no cash transaction. Rushing the economy into a cashless state without proper planning and infrastructure will be disastrous and its consequences will be everlasting. A gradual move towards less-cash society as said by the Prime Minister is the right way forward.

Also, important to note that if people start flocking to alternate currencies, governments could wind up losing much of their power to influence economic issues such as inflation and unemployment. The government can't set an interest rate for institutions lending in a currency it doesn't control.

Outcome of the Movement

- “Even the vegetable vendors on the streets have opened up Paytm accounts and they have a machine outside their shop where someone can scan the bar code and make the payment,” Nangia explained.
- “A lot more retail outlets are accepting e-wallets, including my laundry provider and my *dabbawala*,” Prasad proclaimed. “This is revolutionary, and survival of the fittest.”
- Modi’s demonetization initiative has been a boon for India’s e-payment providers. Paytm reported a three-time surge in new users - tacking on over 14 million new accounts in November alone. While Oxygen Wallet’s daily average users increased by 167% since demonetization began.

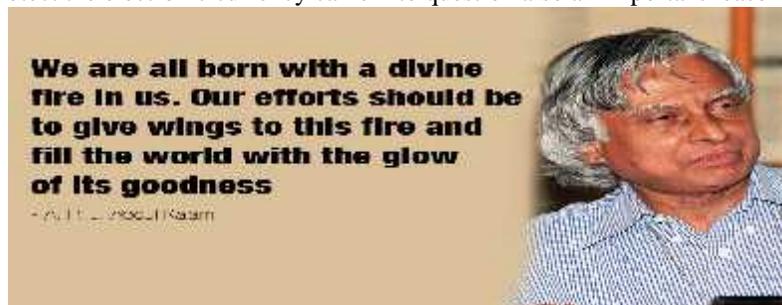
- “Ever since Prime Minister Narendra Modi’s demonetization announcement, we have suddenly seen a spike in both app downloads & merchant registrations. This spike is now coming from all cities, big and small, pan-India, consisting of small merchants like vegetable vendors, Kirana shopkeepers [small convenience stores], street vendors, rickshaw drivers, taxi’s etc., who’ve signed onto our Oxygen Wallet app for the merchant payments service,” said Pramod Saxena, the founder and CMD of Oxygen Services.
- Cryptocurrencies like Bitcoin and Asiadigicoin have also been the recipients of a positive upswing from Modi’s currency purge — with Bitcoin in particular being driven up in value.
- The lack of cash in the economy combined with the buzz around electronic payments systems has also sparked some very innovative solutions. The farmers’ markets of Telangana began experimenting with their own electronic payment system where customers with Aadhar-linked bank accounts could buy vegetables using tokens which could be purchased via debit cards at specialized kiosks.
- “These changes indicate towards a more inclusive society in the future,” Saxena said. He then outlined several areas in which India is trying to improve its digital economy, which include simpler, more technologically advanced digital payment systems, increased merchant acceptance, improvements in UPI, which allows monetary transfers between any two bank accounts via a smartphone, as well as a reduction in cash-based transactions.
- “The Prime Minister’s move to incentivize digital payments will offer a strong support to our ongoing efforts in helping the country leapfrog the cash generation to digital payment solutions,” added Deepak Abbot, the senior vice president of Paytm. “This will not only help millions of Indians overcome the hassles of dealing in cash but also act as a significant step towards propelling India to emerge as a truly cashless economy.”

Conclusion

The biggest problem with India suddenly removing 86% of its currency from circulation without having an adequate supply of new notes ready to take their place is that fact that India is more reliant on cash than almost any other country on earth. Suddenly, hundreds of millions of people were left without the means to engage economically, to buy the things they wanted and needed, and myriad businesses were left without a readily available mechanism to receive payment for their goods, to buy supplies, or pay their staff.

Cash is like water a basic necessity without which survival is a challenge. Nevertheless, cash use doesn't seem to be waning all that much, with around 85% of global payments still made using cash. One of the main reasons is that there is nothing to truly compete with the flexibility of notes and coins.

Of course, the digital era is something to embrace, and new methods of payments will continue to be introduced. But Indians need to recognize the risks and benefits of different payment instruments, the risks associated with electronic payment instruments are far more diverse and severe. Recently lakhs of debit card data were stolen by hackers; the ability of Indian financial institutions to protect the electronic currency came into question also an important reason why people favour cash.



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