



CHALLENGES IN MAKING INDIA A CASHLESS ECONOMY

Punith Raj N

Asst Professor, T John College, Bangalore.

Abstract

Cashless economy is one in which all the transaction are done using cards or digital means. Reducing Indian economy's dependence on cash is desirable for variety of reasons. India has one of the highest cash to gross domestic product ratio which is 12.42%. At present in India less than 5% of payments happen electronically. The currency circulation is also more in India when compared the other large economies. After demonetisation India had to go cashless as physical form of cash was shortage in the country. Going cash less as lots of benefits which helps in the development of the economy. Government has also taken lots of measures by introducing new schemes like Pradhan Mantri Jan-DhanYojana, BHIM, Withdrawal of surcharges, services charge on digital transaction, Launch of UPI. RBI has also issued licences to open new-age small finance bank and payment banks which are expected to give a push to financial inclusion and bring innovative in banking solution. There are lots of challenges in moving towards cashless economy in India it might be due to low literacy rate, lack of interest among the people, lack of usage of smart phones, etc. There is lot of advantaging in moving towards cashless it also contributes for the development of the economy as it curb the generation of black money, reduces tax avoidance, avoiding fake note circulation in the country and reduces the cost incurred in issuance and maintenance of currency notes. Though there are lots of challenge for India to go cashless still we have to as it contributes for the development.

Keywords: Digital, Economy, Tax, Transaction.

Cashless Economy

Cashless economy is an economic state where financial transaction are not conducted with money in form of physical banknotes or coins, but rather through the transfer of digital information between the transacting parties. In other words a cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal.

Reasons For India Moving Towards Cashless Economy

1. Demonetisation

Government of India announced Rs500 and Rs1000 notes will lose their legal tender in the country from November 8 2016. As a result of this there was shortage of physical form of currency in the country. So people had to depend on digital form of money for their daily transaction because India uses too much cash for transaction. The ratio of cash to gross domestic product is one of the highest in the world which was 12.42% in 2014, compared with 9.47% in China or 4% in Brazil.

2. To Curbs Generation of Black Money.

When there is physical money transaction happening there will be more chance in increasing black money as the will be no proof for the transaction but in case of cashless transaction each transaction will have proof so we have pay the tax accordingly. Here generation of black money is less.

3. Cost Incurring to the Government

Government will have an additional cost every year for currency issues and management. In the financial year 2015, RBI spent Rs 27 billion on currency issue and management activity. This additional cost for the government can be avoided if our economy becomes cashless.



4. **Avoiding Fake Notes**

When we depend more on physical currency there is more chance for fake notes to enter into economy. 1 in 7 notes is supposed to be fake, which will have huge negative impact on the economy. By going cashless this problem can be avoided.

5. **To Reduce Tax Avoidance.**

In cashless transaction every transaction will have proof for the transaction which remains as the document while paying tax so the tax avoidance can be reduced but in case of cash transaction this is not possible.

Government Road Maps for Cash Less Economy

Reducing Indian economy's dependence on cash is desirable for a variety of reasons. India has one of the highest cash gross domestic product ratio in the world. According to 2014 study by Tufts university states RBI and commercial banks spend 21000 corers annually for cash operation and issues of currency.

The government on its part is working at various levels to reduce dependence on cash. Some of them are mentioned below:

1. **Pradhan Mantri Jan-Dhan Yojana**

This is a scheme for opening bank account for the unbanked people of the country to ensure the access to the financial services like Banking savings and deposit account, Remittance, credit, Insurance, Pension in an affordable manner. It is run by Department of Finance Service, Ministry of finance, by 2017 over 27 crore bank accounts were opened and almost Rs 665 billion was deposited.

Account holder will be provided bank account with no minimum balance. RuPay debit cards will be issued so cashless transaction can be done. With the introduction of new technology introduced by National Payment Corporation of India (NPCI), a person can transfer funds check balance through a normal phone which was earlier limited only to smart phones. Mobile banking for the poor would be available through National Unified USSD Platform (NUUP) for which all banks and mobile companies have come together.

2. **BHIM (Bharat Interface for Money)**

BHIM is a mobile app developed by National Payments Corporation of India (NPCI), based on Unified Payment Interface (UPI). It is intended to facilitate e-payment directly through banks. As a part of 2016 demonetisation a drive towards cashless economy. BHIM is currently been used by over 125 lakhs Indian citizens.

BHIM allows users to send or receive money to other UPI payment addresses or scanning QR code or account number with IFSC code or MMID (Mobile Money Identifier) Code to user who do not have a UPI-based bank account. BHIM allows user to check current balance in their bank account and to choose which bank account to use for conducting transaction, although only one can be active at any time. User can create their own QR code for a fixed amount of money, which is helpful in merchant-seller-buyer transaction. They can have more than one payment interface (UPI). Version 1.3 allows the user to user to use mobile number from their contact book to send money from their contact book send money and also save payment address for future use without needing to type address again.

3. **Promotes Mobile Wallet**

Government would promote mobile wallet such as Paytm. Mobile wallet allows user to instantly send money, pay bills, and recharge mobiles, book movie tickets, send physical or e gift both online and offline. Recently, the RBI had issued certain guidelines that allow the user to increase their limit to RS 100000 based on their KYC (Know Your Customer) verification.



4. Withdrawal of Surcharges, Services Charge

Government withdrew surcharge and service charge on cards and digital payment this was an encouragement to the public to go cashless. As they would save service charge and surcharge levied on the transaction provided if payments are made electronically.

5. Launch of UPI

Government as launched Unified Payment interface by National payment corporation of India makes digital or electronic transaction as simple as sending a text message which is simpler and faster. UPI facilitates instant fund transfer between two bank account on mobile platform. UPI is built on Immediate Payment Service (IMPS) for transferring funds using virtual Payment address (a unique ID provided by the bank), Account number with IFSC code, Mobile number with MMID (Mobile Money Identifier), Aadhaar Number, or a One-time use virtual ID. An MPIN (Mobile Banking Personal Identification Number) is required to confirm each payment.

Advantages of Going Cashless

1. Easy Expense Tracking & Documentation

Making transactions digitally makes it easy to keep track of your finances. It can also make personal budgeting easier. It can also help in filing income tax returns and, in case of a scrutiny; you will find it easy to explain everything to the taxman.

2. Reduced Risk of Losing Money

If stolen, it is easy to block a credit card or mobile wallet remotely, but it's impossible to get your cash back if it is stolen. In that sense, the digital option offers the great security. This is especially true while travelling, especially abroad, where loss of cash can cause great inconvenience.

3. Production Costs of Coins and Paper Currency are Reduced

Production of coins and paper currency is indeed an expensive endeavour to the central bank. The life span of most of the paper currency is about 5-6 years. So, by going electronic the cost of production of paper currency gets reduced. In the year 2015, the RBI spent Rs 27 billion in issuing and managing currency notes.

4. More Spending Helps Improved Economic Growth

When a nation is taking a step towards cashless economy, a boost in the economic growth can be expected as it increases the nations GDP. Shopping online gets easy as one can use a number of payment options; from credit and debit cards to net banking. One can observe more spontaneous buying while making cashless payments.

5. Creates Employment Opportunities

As our country is moving towards cashless economy the tendency of people to spend more is higher. As people spend more, companies need extra staff to handle the demand for goods and services and this, in turn, created more jobs for unemployed.

6. Beneficial to the Society

Since our country is moving towards cashless economy. Tax collections will increase significantly and that revenue can be used for the benefit of society. Like building infrastructure, helping poor and less privileged people, education, health care etc. It can be used to lift Indians out of poverty.

7. Coverage of Large Number of People for Tax Payment

Every transaction will be recorded under cashless economy. A large number of people will come under the tax coverage so government income will increase so government can invest more in the places to



improve infrastructure and society. With only very less per cent of the GDP of the economy only coming under Tax coverage but if we go cashless then all will come under Tax coverage.

8. Illegal Activities can be Stopped

Prostitution, drug trafficking, terrorist financing, money laundering and many such activities are carried out only in cash. Cashless transactions would make the operation of such businesses impossible for the criminals. This is one of the major advantages for a crime ridden India.

Challenges of Going Cashless

1. Transactions are Mainly in Cash

Nearly 95% of transactions in India take place in cash. Large size of informal/unorganised sector entities and workers prefer cash based transactions. They don't have required digital and fintech literacy.

2. ATM use is mainly for cash withdrawals and not for settling online transactions:

There are large number of ATM cards including around 21 crore Rupaya cards. But nearly 92% of ATM cards are used for cash withdrawals. Only low level of digital payments using ATM cards. Multiple holding of cards in urban and semi-urban areas show low rural penetration.

3. Limited availability of point of sale terminals and poor transaction culture in point of sale:

According to RBI, there are 1.44 million point of sale terminals installed by various banks across locations at the end of July 2016. But most of them remain in urban/semi urban areas.

4. 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.

5. Smartphone usage rate among adults 17 percent

For a majority of banking applications, a smartphone is a prerequisite. India is Asia-Pacific's fastest-growing smartphone market, but no more than 17 percent of Indian adults own a smartphone, according to a survey by new research. Only seven percent of adults in low-income families own a smartphone; the figure for wealthier families is 22 percent.

6. 1.02 billion mobile subscriptions, but only 15 percent have broadband internet

India had 1.02 billion wireless subscriptions, but after scrubbing data of inactive and duplicate connections, India has 930 million (90 percent) active subscribers, according to a TRAI report. Of these, 154 million subscribers (15 percent) have broadband connections (3G+4G).

7. Average page load time on mobile 5.5 seconds, china 2.6 seconds

The average time to load page on a mobile phone is 5.5 seconds in India, compared to 2.6 seconds in China, 4.5 in Sri Lanka, 4.9 in Bangladesh and 5.8 in Pakistan, according to the "state of the internet Q1 2016" report by Akamai Technologies, a global content delivery network services provider. Israel has the fastest load time at 1.3 seconds.

Mobile internet speeds will make users less likely to use their phones for banking transactions, with Oracle Maxymiser, a website optimisation tool by Oracle, a US multinational, reporting a two-second threshold before users stop an online transactions—although 68 percent of respondents reported they would not wait six seconds for pages or images to load on a banks website or mobile site.

8. Merchant Acceptance

India had 712.5 million debit cards, and 130.53 million transactions, as of August 2016. That's around 18 transactions for every 100 cards. As for credit cards, there were only 26.38 million in India as of August 2016, accounting for 83.95 million transactions.

9. No privacy for the cashless

A switch to living cash-free means that each and every transaction is tracked and documented. This is great for governance but there is no protection for citizens with regard to who owns that data, whom they can share it with, and how it will be utilised.

10. Mobile users who are connected to the internet are low

There were 342.65 million internet connections by the end of March in which 20.44 million were wired connection. In total, 149.75 million were on broadband (3G + 4G + wireline broadband) and 192.9 million on "narrowband". For the top four telecom operators, the number of mobile connections that are data – enabled (usage of more than 1mb, or more than 10mb per month, depending on the operator) is around 30%.

Chart: 1

September 2016

Mobile Internet In India

Data Vs Non-Data Connections (in Million)

There is room for more: More mobile connections are being lost (4.2 million in the quarter ending September 2016) than the number of mobile internet connections (4.9 million) each quarter by the top four telecom operators.



Conclusion

India continues to be driven by the use of cash; less than 5% of all payment happen electronically so government as introduced certain schemes to promote cashless economy. Going towards cashless economy reduced instance of tax avoidance because it is financial institutions based economy where transaction trails are left. Though there are certain challenges we should overcome them as moving towards cashless helps in the developing economic status of the country. If our economy is cashless there is an advantage of saving the cost incurred to RBI and commercial banks in maintaining the physical currency. So we have to overcome all the challenges and move towards cashless economy.

References

1. <http://www.indianeconomy.net/splclassroom/310/indias-march-towards-cashless-economy-challenges-and-prospects/>.
2. http://economictimes.indiatimes.com/articleshow/55769825.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst.
3. <http://www.pwc.in/assets/pdfs/publications/2017/securing-the-cashless-economy.pdf>.