

INDIA'S SHIFT TO CASHLESS ECONOMY: REALITIES AND CHALLENGES

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Abstract

The Indian economy is experiencing a series of deviations and divergence after the midnight of November 8, 2016. With the aim to slip back the black money to the government of India, the signs are likely that cashless is not very far! the step of demonetization is certainly a great step towards the cashless economy. focusing on Digital India programme and digitalization is also giving the clear picture that cashless society is not far-flung . this paper is an attempt to highlights the major challenges and opportunities of making the monetary transaction “Faceless, Paperless, Cashless.

Undoubtedly we can say that Reducing the economy’s dependence on the cash and making it more deviated towards non cash medium would result into the betterment of the economy. but at a very same time we are compelled to think about the its practicability. Because in our country where 90% of the transactions depend on cash . A country where one fourth of the population is illiterate, A country where only 6.2% of people are computer literate , in the country where from bread to bed everything depends upon the cash, here transformation from cash to cashless economy is really a small task ??

Key words : cashless economy, Demonetization, Digitalization, online transaction .

IMPORTANCE:

The cashless economy has importance attached to it in the following ways

By implementing the cashless economy we can save the printing cost of currency notes. as data reveals that in the financial year of 2015 experienced the hefty amount of Rs. 21,000 crores just on the printing of the cash into the economy cashless economy is also important to have the details of all monetary transaction . so by that the government can have the data of all money transaction

Cashless economy is needed to reduce the taxes that are charged by the government due to the lack of funds in the government bodies Cashless India would be beneficial as it will decrease the tax avoidance cashless economy would be the great barrier for illegal money transaction as well as it become the hindrance for the gang who are in the market of fake note as in our country out of every 10 note one note is fake it is beneficial from the safety point view as in cashless society customer no need to carry the bulk cash and subsequently it will reduce the robbery and theft act

Cashless economy : A subject to concern Indian economy is the fastest growing economies among all promising nations. At the same time, it’s very much sensitive & perceptive to any uncertainties that happen in the world

"India is a cash economy. It's not like Europe or the U.S and other developed nations. where everyone is running around with a credit card & effectively handling the online transactions . That's not the world of India.". we are not unaware about the situation of india where most of the people don't have the bank account those who have bank account don't have credit cards and those who have credit cards still have some sort of fear of e-banking. we are not unaware about the digital literacy of our country. If we have any confusion then just have a look what data says



BPL. In our country 30 % are people living below the poverty line . just have a look on the context which we have in our country. In almost largest populated . India accounted for the largest number of people living below international poverty line in 2013, with 30 per cent of its population under the \$1.90-a- day poverty measure, the World Bank said.

Literacy rate . in india the overall literacy rate is 74.04% % . where 82.14%% male & 65.46%% female are literate according to the census of 2011. if we are comparing our nation in term of development to other nation then we should know that the level is well below the world average literacy rate of 84%, and of all nations the table below shows the adult and youth literacy rates for India and some neighbouring countries in 2015

Computer literacy/ Digital literacy : Anyone who is comfortable with basic computer programs & functions can be called a computer literate. Computer literacy is considered to be a very important skill to possess. the sources said that in india computer literacy rate is less than 7%. while in the first world countries, the economy is developing faster because of the immense progress in the world of science, technology and information practice, the developing nations are yet to be aware of the same. Recent surveys have revealed shocking results that show that computer literacy in India is less than 7%.. Many claim to never having heard of or seen a computer, let alone be comfortable with computer .

According to some estimates, computer literacy in India is just 6.5%. We still have less than 10% Internet penetration. While radio and television reach is less than 150 million households, the mobile phone outreach is more than 53% of about 330 million households programming.



Source :National Informatics centre/ <http://cashlessindia.gov.in/>

In a country with more than 6,50,000 villages, where more than half of its population live in rural areas and off-the-map villages it is the country of villages & place of farmer. no doubt Indian economy has become one of the world's largest in recent years, but millions of businesses, and hundreds of millions of people, lack bank accounts and use cash to pay for everything from groceries to hospital stays to land purchases.

in our country where 90% of the transactions depend on the cash . A country where one fourth of the population is illiterate , in the country where from bread to bed everything depends upon the cash. India is dominated by small retailers. They don't have enough resources to invest in electronic payment infrastructure and that is the subject to concern.

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.

When talking about the cashless India digital India don't we know that India is the country of villages it s the country of farmers villagers . it is very amazing fact the out of five villages in India 4 villages don't have banks.

Government steps for encouraging for cashless economy

To boost electronic transactions, the government is working to reduce acquisition price of point of sale (PoS) terminals while reducing transactions costs to make digital payments more attractive compared to cash

The Indian government with an aim to promote the faceless, paperless and cashless economy through non-cash transactions has introduced many mediums such as: Banking cards, USSD, AEPS, UPI, Mobile Wallets, Banks Pre-Paid Cards, Point of Sale, Internet Banking, Mobile Banking, Micro ATM's for making the cashless society more convenient and online transaction more feasible

Government of India initiative Digital India programme

No doubt the programme initiated by govt. of India regarding digitalization is fantastically fabulous. 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.



Source :National Informatics centre/ <http://cashlessindia.gov.in/>

Cashless India: Challenges and benefits

According to & CEO of National Payments Corporation of India for cash to cashless economy For those grappling with cash scarcity due to the recent demonetisation move, debit and credit cards have come in handy. he said Thanks to the recent drive towards financial inclusion, a large segment of the population has access to these payment options now.

According to him The number of banks providing card payment option has increased from barely 60 in 2011 to more than 700 today. The card base — both debit and credit cards combined — has also crossed 750 million. but he has also shown the 2nd side of coin that for cashless economy we have to work very much our system of economy is not very much designed for cashless economy according to him But challenges in the system are many. First and foremost is inadequate acceptance infrastructure in terms of ATMs as well as point of sale (POS) terminals. For a vast country like India, having only 2.3 lakh ATMs and 14 lakh POS terminals is too low. Countries like Brazil, Australia, France and the UK have POS terminals three or four times that of India. The metros have a large concentration of ATMs, but the number declines in the suburban and rural areas.

According to Hindustan times report India has been a largely a cash-dominated economy with over 95 per cent of all transactions taking place in cash. The move to electronic banking—through debit and credit cards, bank transfers, Internet and mobile banking—will indeed accelerate. While the use of cash for retail transactions was 95%, according to this 2013 report from McKinsey, a consultancy, it was 68% in 2016, the Business Standard reported, quoting CLSA, a brokerage group.

However, as we found, the government's plans do not address significant hurdles & obstacle , which will likely hinder future growth. Here are four indicators of expansion in India's cashless economy and the barriers they face.

The Major challenges of cash to cashless economy

Five-fold growth in electronic bank transfers, 2011-16: Bank transfers made through the National Electronics Funds Transfer (NEFT) system rose five times in number (4.5 times in value), while transfers using the Real Time Gross Settlement (RTGS) system rose 70% in number (50% in value) over five years ending 2016, according to October 2016 Reserve Bank of India (RBI) data. RTGS, which requires a minimum of Rs 2 lakh, allows transfers in "real time", or immediately, while NEFT, which has no minimum, can be done during fixed times. NEFT recorded 1.19 billion transactions in October 2016, compared to 199 million in

2011; RTGS transactions rose from 511 million to 864 million over the same period. Electronic transfers, as the term suggests, requires Internet access.

But... only 13% (108 million) of 833 million Indians in rural areas have Internet access. According to **IndiaSpend** reported on December 3, 2016 Almost 73% of Indians cannot access the Internet.;According to according to March 2016 Telecom Regulatory Authority of India (TRAI) data India has 342 million Internet users,. In urban India, 58% of people have access to Internet.

ATMs and Point-of-sales (POS) terminals double, 2011-16: while talking about the cashless economy we should give the consideration to ATM & POS (point of sale terminal the machine used to swipe debit & credit cards . According to the RBI report of october 2016 There were 1.4 million POS terminals and 200,000 ATMs , a doubling of numbers over five years. From an ATM for every 12,000 Indians, there is now one for every 6,500. The number of ATMs rose from two for every 100,000 adults in 2005 to 18 by 2014, according to World Bank data. The State Bank of India (SBI) has opened more than 26,000 ATMs over the last four years, according to RBI data, higher than the next four banks (HDFC, ICICI, Axis and Kotak) put together. SBI, India's largest bank, has also deployed more PoS terminals than any other bank. The government has announced plans to add an additional 1 million PoS terminals.

856 POS machines per million Indians: There were 1.46 million PoS machines in use in India—that is, 856 machines per million people—according to this August 2016 Reserve Bank of India report. In 2015, Brazil—with a population 84 per cent lower than India—had nearly 39 times as many machines (32,995), according to this 2015 report from Ernst & Young, a consultancy. The PoS machine rate was 4,000 per million people in China and Russia. More than 70 per cent of the PoS terminals are installed in India's 15 largest cities, which contribute to more than 75 per cent of transactions, says the Ernst and Young report. This has not changed after #notebandi, as the scrapping of Rs 500 and Rs 1,000 notes is called colloquially. Most requests for more PoS machines are still from “tier 1”, or metropolitan, cities, a banker with a leading private sector bank told the Indian Express on 29 November, 2016. “In tier 2 cities, customers are now slowly making the shift from using their debit cards to withdraw cash to using them for payments. The demand is progressing slowly,” he said. As an incentive to banks and manufacturers of PoS terminals, the government has waived 12.5 per cent excise duty and 4 per cent special excise duty on these machines, as it was hopes to install an additional 1 million PoS machines by March 2017.by still waiting for the response.

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, recharge mobiles, book movie tickets, 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. infrastructural growth for the feasibility on electronic should be enhanced

Government should reduce the fees on credit card transactions; reduction of interchange fee on card transactions; increase in taxes on ATM withdrawals.

There should have some sort of Tax rebates for consumers and for merchants who adopt electronic payments.

Making Electronic payment infrastructure completely safe and secure so that incidents of cyber crime would be reduced

Cyber crimes should be minimized so that the people can develop faith in electronic payment system.

Create an awareness regarding 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.

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.

Conclusion:

Though the advantages of cashless economy cannot be downplayed, we need to realize that even those who have access to credit cards, debit cards and net banking are apprehensive to use that mode of payment due to fear of important details being stolen. Cashless payments are facilitated through machines which are not available everywhere. (Only in malls and other urban market places). Promoting cashless payment in rural areas will be a challenge given lack of infrastructure, banking system and lack of knowledge on debit and credit cards.

To successfully go cashless, we will need to take a step by step approach and first address the issues that could cause hindrance. although On a concluding this move should help India to march towards building a strong and stable economy which supports inclusive growth.

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