

Cashless Economy: Opportunities and Challenges in India

***Ms. Archana Chauhan**

Abstract

India's black money, estimated by the World Bank in 2010 was about one fifth of official GDP. To curb the shadow economy, corruption and to push the country towards more transparent system, Indian government opted for demonetization and cashless economy drive. Is a country like India having banking penetration of just 53% (2014) and internet penetration of 34%, be able to go cashless. This paper deals with the concept of cashless system, various opportunities, challenges and problems of being cashless. This paper also suggests some recommendations for smooth implementation of cashless system and how this transformation will contribute to India in future. The objective of the paper is to observe the potentialities of a cashless economy, challenges faced and to suggest various ways to ease this process.

Keywords: Demonetization, Financial Inclusion, Cashless

* Assistant Professor, Department of Commerce, Ramanujan College, University of Delhi,
Email: archu_jubilee@yahoo.co.in

Introduction

In an unexpected and sudden move, on 8 November, 2016 PM Narendra Modi diluted the Rs 500 and Rs 1000 Currency notes, which consist of the 86% of the whole money circulation in the country, creating a huge cash crunch in the economy. Demonetization left millions of people queuing up in front of the banks. According to the government Demonetization was intended to combat rampant corruption, untaxed black money, to encourage cashless Transactions and to make the informal sector more accountable. In a country which is highly cash reliant (more than 90% transactions are carried out on cash), it is really a bold move to transform from cash basis to cashless. In India the cashless economy concept came as a result of demonetization so lets understand what demonetization is, Demonetization is officially stop using particular currency or eliminating the legal tender status of a currency note. The basic objectives of demonetization are:

- * To introduce new currency
- * To curb the black money
- * To discourage cash system
- * To combat inflation

Demonetization is not a new concept to the world; there are many instances in the past,

- In the year 1991, Russian Government banned the currency notes of Ruble 50 and 100 in to end black money in the country.
- In 2015 Zimbabwe government demonetized their Zimbabwean dollar to control the hyperinflation in the country.
- Another popular example is when nations of European Union adopted Euro in 2002.

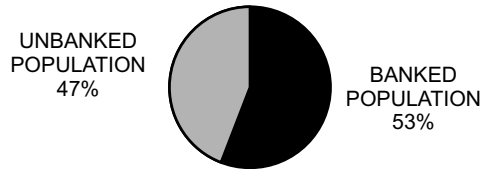
Government fixed rate of exchange for varied national currency into Euros and demonetized the old currencies.

- Even in India Government had demonetized high value currency notes (Rs. 5000, Rs 10,000) in 1946 and 1978.

Demonetization left a very less money in circulation which impacted the economy badly specially the cash centric informal sectors like agriculture, real estate, fishing etc. To bring the economy on track again, government is promoting cashless economy because scrapping of cash needs an alternative to cash. But in India large portion of population is still unbanked as they do not have access to structural and cultural resources to adapt this 'new normal'

According to World bank report, bank account penetration in India in 2014 was just 53%, out of which only 15% users use their accounts to make or receive payments.

BANK ACCOUNT PENETRATION IN INDIA (2014)



Source: <http://data.worldbank.org/>

Cashless Economy: Current Scenario

A cashless economy is, where major transactions are done through banks, cards or digital payments, use of physical currency is very low. There are many countries in the world who are close to pure cashless.

Countries	Rank	Share of non -cash payment in total value of consumer payments
Belgium	1	93%
France	2	92%
Canada	3	90%
United Kingdom	4	89%
Sweden	5	89%

Source: <http://www.worldatlas.com>

India is very cash reliant country than any other country in the world. Even many multinational ecommerce companies like amazon, uber etc are accepting cash in India, the only country in the world where this 'cash on delivery'(COD) option is available. According to research and advisory firm Redseer management (7Dec, 2016) 70% online transactions are via COD in india. By demonetization government has switched off the button of the cash economy in the hope that more and more people could be brought to digital platform.

A cashless economy will give following chain benefits

- Cashless economy will **increase the taxation base**. India's informal economy contributes 45% in GDP and 80% in country's employment which is huge. It means transactions of millions remain unaccounted and untaxed. Currently only 1% of India's population pays income tax as per Income Tax Department. In long run, with this system most of this sector will be

compelled to bring in formal framework. It will also **reduce the instances of tax avoidance.**

- It will also **curb the parallel shadow economy** (black economy) which runs majorly on cash basis. Cashless transactions are track-able and more transparent.
- **Clean and more transparency** in business transactions and money transfer.
- **Efficiency in welfare programs** as money can be easily transferred to the accounts of the recipients. It will eliminate the role of intermediaries who eat the share of welfare money spent on people. This cashless regime is very transparent and people will get the all the benefits directly in their account without paying any bribe to any 'babu' or contractor.
- Improved **Financial inclusion and credit access** through linkage of all welfare activities to bank account. It will not only increase people welfare but create a sense of belongingness and faith in banking system.
- **Reduced money laundering** due to easy traceability of transactions.
- **Improved climate** for foreign direct investments.
- Good Governance
- **Cash on delivery** is a big pain for all ecommerce companies in India. Beside higher cost there is risk of return and theft associated with this payment method. Cash payments are more frequent for high value products where unaccounted black money is spend on luxury items.
- In Financial year 2015 RBI spent 27 billion on currency issuance and management. Cashless economy will reduced such costs.(<https://www.rbi.org.in>)

Bottlenecks in the path of cashless economy

In beginning cashless economy can slow down the economic growth. The World Bank decelerated India's GDP growth for 2016-17 fiscal year to 7% from its previous estimate of 7.6% citing the impact of demonetization. The International Monetary Fund (IMF) also cut India's growth rate for the 2016-17 fiscal year to 6.6 % from its previous estimate of 7.6% due to "temporary negative consumption shock" of demonetization.

- **Poor banking infrastructure:**

The latest Government report on financial inclusion "Overview and progress of financial inclusion" says that according to 2011 census the penetration of banking services among households is 58.7%. Due to high unbanked population it would be very difficult to engage people in digital platform.

As per RBI report (Aug, 2016) there is 1 bank branch per 10,000 Indian and 1 ATM per 5000 Indian

- **Fear for online / digital transactions:**

Major portion of population are unbanked and do not have any exposure to internet therefore they do not feel comfortable using technology. Educational Illiteracy also plays hindrance in the process of cashless economy.

- 90% of traders did not have point of sale(POS),card readers or means of accepting online payments. They do not prefer to keep records to avoid tax payment and the customers find cash payment more easy and convenient.

- **Access to Internet:**

India's total population is about 132 crore in 2016 out of which only 34.8% people (around 46 crore) are using internet which is quit low for a country dreaming about going cashless. The quality of connection is very bad even in metro cities. Speed of internet is very slow and data packs are quite expensive.

Suggestions and Recommendations

Demonetization has unlocked immense opportunities and has increase the speed of transition in every sector of the economy specially banking, ecommerce and IT sector. Cashless economy can not be achieved in few days or months, it is a slow and lengthy process.

Government has to sensitize the people and prepared them to adapt this change. The Deloitte survey (Dec,2016) found that smartphone users' most important financial transaction was checking their bank balance, with around 54% of those surveyed doing so. More than 50% of consumers use mobile phones to pay utility bills (54%) and other service bills (53%), followed by transferring money (38%). A large segment of consumers said lack of benefits (like cash back and bonus points etc.) and credit card rewards give them less incentive to make mobile payments. Following reforms may help in smooth adoption of cashless economy.

- Government should start **awareness programs** time and again through schools, colleges, panchayats etc. for sensitizing people specially low income group who are totally dependent on cash, for cashless/ banking transactions. **Financial Literacy** is a must for bringing more and more people to digital platform, lack of which creates fear, even literate people are hesitant in doing money transactions online.

- Cost of hardware and software should be made cheap.
- Lower down existing taxes and duties on digital payments.

- Linking all welfare activities with bank account will enhance financial inclusion.
- Urban areas contributes 70% to GDP so Initially more focus can be given to urban areas to make them cashless, where infrastructure is already developed. Rural areas can be covered gradually.
- A strong infrastructure is the basic prerequisite for a cashless economy. Government should ensure the constant electricity supply, good internet speed and cyber laws for the safety of the internet.

Conclusion

Cashless economy is very transparent and clear economic structure which curbs black money, this structure will also help in combating cash financed terrorism in the country. With a clean and transparent economy everybody will be able to get the benefit of development.

According to a 2013 study by The Fletcher School of the Tufts University - 'India cash Outlook' - the total value of ATM transactions has increased more than five times in the 2007-2012 period, from about Rs 3 lakh crore to about Rs 18 lakh crore, while the value of card transactions barely doubled in the same period from Rs 1 lakh crore to Rs 2 lakh crore. This indicates the increasing use of transactions digitally. Many ecommerce companies have started 'Wallet on Delivery' in place of 'Cash on Delivery'. This is true that 100% cashless society is never possible with existing infrastructure, but we can make a start with less-cash economy.

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