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From a Cash Economy to a Less-Cash Economy

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Abstract
Reducing Indian economy's dependence on cash is desirable for a variety of reasons. India has one of the highest cash to gross domestic product ratios in the word, and lubricating economic activity with paper has costs. This article helps in understanding the Factors that determine transition to a cashless economy. This article also examines the advantages of cashless economy and governments efforts towards it. This article is based on secondary data collected from government reports, magazines and newspapers.

Keywords: Demonetization, digital payments, m wallet

Introduction

- Demonetization caused a cash crunch and forced the government to push for electronics payments and transfers.
- The government has been sowing the seeds of a cashless economy:
  (a) In 2014, the government launched the Jan Dhan Yojana.
  (b) In 2016, the government approved the guidelines for promoting payments through digital means.
- The idea of a cashless economy is a revolution from the fiat money to digital money with increasing transparency of the flow of cash.
- The best way to reduce corruption and black money in the economy is to move to electronic transfers who need universal banking access and facility.

Cashless Economy

Cashless economy means more and more use of digital mode and less use of cash in transactions. The World Bank's World Development Report-2016 envisages that in many instances, digital technologies have boosted growth, expanded opportunities and improved service delivery. Larger size of digital economies is in the developed economies is one of the factors of less corruption in these countries as compared to developing countries. Therefore, in order to escape from adversaries of corruption and black money and to have more transparent and cleaner economic growth with social Justice, less use of cash is one of the suggested measures. Sweden, where 89% is no cash payment, ranks 3rd in Corruption Perception Index. In India, an estimated 22% is non cash payment and India ranks 76th in the Corruption Perception Index. This veritably proves that there is a strong negative correlation between the cashless transaction and corruption.

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Factors that determine transition to a less cash economy

- A meaningful transition will depend on a number of things such as awareness, technological developments and government intervention.
- Mobile wallets have seen notable traction, and it is possible that a large number of Indians will move straight from cash to mobile wallets.
- The availability and quality of telecom network play an important role.
- Banks and related service providers will have to constantly invest in technology in order to improve security and ease of transaction.
- The government will have to find ways to incentivize cashless transactions and discourage cash payments.
- Government should revamp the tax administration, as more than taxes, small businesses fear tax inspectors.
- India's current economic moment constitutes a crucial inflection point; if handled correctly, there is a real chance that the unbanked will adopt digital payments.
- A sharp increase in the use of mobile phones with internet connectivity will help drive the move to digital payments
- Till the time the penetration for online payments doesn't reach local stores, the transition will never be truly effective.
- Financial security over the digital payment channels is imperative for pushing the cashless economy idea.

Advantages of a Cashless Economy

In India only 10-15 per cent of the population is estimated to have ever used any kind of non cash payment instrument, compared to 40% of people in Brazil and China. As of 2014 India's ratio of currency in circulation outside of banks to GDP was 11.1% which is higher than other emerging economies like Russia, Mexico and Brazil.

- Cashless society offers the government and the public many advantages:
  - (a) Convenient mode of payment: The cashless economy offers enormous benefits including reduction in transaction cost of carrying and doing business in cash.
  - (b) Lower risk: With proper cyber security, online payment is relatively risk free, whereas there are always safety issues with physical cash.
  - (c) Reduction in the cost of printing money: In 2015, printing currency cost the RBI Rs 27 billion. The cost can be reduced if the economy moves towards a cashless economy.
  - (d) Decrease in crime rate: Many anti-social and illegal activities like drug trafficking, prostitution, terror financing and money laundering are carried out only in cash. A cashless economy will make it difficult to carry out such operations.
  - (e) Good for the banking sector: once people get used to digital payment and transfers, there would be less demand for cash holding or cash hoarding; this would leave more cash in the banking system and thereby enable more savings.
  - (f) Transparency and Monitoring: Cashless transactions can be easily monitored by the government. Therefore, tax evasion would be difficult and would enhance revenue collection.
- Government expenditure will increase in the direction of development process, as there is a possibility of increase in transparency and the flow of revenues.
- Digital financial transactions can prove to be an effective means of curbing the large parallel economy in India.
- It would make book keeping easier and increase the tax base, and substantially reduce the need to carry cash and the risk of physical theft.

India vis-a-vis other countries

- Currency in circulation in India is higher than many developing and developed countries. In 2015, the share of cash in circulation in the economy as a percentage of GDP of India was 12.3% compared to 3.8% in Brazil, 5.6% in South Korea and 1.7% in Sweden.
- In 2016, more than 68% of the transactions in India were settled in cash, one of the highest in the world after Indonesia and Russia. Other developing countries such as Thailand, Brazil and China have much lower usage of cash for settling payments as compared to India.
- Among developing countries Kenya has taken measures for online payments for government services to reduce fraud and ensure better collection.
- According to World Bank's Global index report 58% of the adult population in Kenya had active mobile money accounts in 2014 the highest rate in the world.
- Kenya is an example where mobile technology and the increase in Smartphone ownership have played key role in improving online payments despite low credit card usage and Internet penetration.

Available Infrastructure

- In India for instance in 2015 only half of the Indian population had a card. Compared to this in Sweden the average number of cards for person was 2.5, in South Korea it was 5.5, in Brazil 4.1 and in China 4.
- South Korea which has one of the highest penetrations of cards among the comparative countries is a fast mover into the cashless payment system.
- In India bank charges are deducted in case of card payments - thereby making it more lucrative for consumers to pay by cash.
- Compared to the large size of the Indian population, India has one of the lowest numbers of point of sale terminals per million inhabitants in the country compared to other developing countries including Brazil and China.

- In India the available infrastructure for electronic money terminals and mobile money payment systems is limited because Smartphone ownership and Internet penetration is low in India compared to other countries.
- Thus, the present level infrastructure, particularly the technological infrastructure in India needs to be upgraded at a fast pace to support the ' less cash' initiative of the Indian government. There is a need to ensure security of online transaction through the right policies.

India's Cash to GDP Ratio

As calls for going cashless grows louder in India, a key challenge being faced at the global level is to check the continuing rise in the total value of currency in circulation and its share in the overall GDP, a trend particularly seen in the US, Switzerland and Euro area.

Such containing rise in the circulation of currencies for economic activities could well be a major impediment in the transformation to a cashless and digital economy.

India's cash to GDP ratio- an indicator of the amount of cash being used in the economy- is around 12-13%, which is much higher than major economies including the US, the UK and Euro area but below that of Japan (about 18%). Surprisingly Indonesia, another developing economy, has a much lower ratio of around 5%.

Government and RBI Efforts

- Government on its part is working at various levels to reduce the dependence on cash.
- Opening bank accounts for the unbanked under Pradhan Mantri Jan-Dhan Yojana.
- Adoption of direct benefit transfer.
- The recently launched Unified Payments Interface by National Payments Corporation of India makes digital transactions as simple as sending a text message.
- Implementation of the goods and services tax will encourage businesses to go cashless.
- The RBI and finance ministry have made Financial Literacy Centres (FLCs) a cornerstone of the PMJDY.
- These centres provide tailored financial education programmes to introduce adults to banking products and setting financial goals.
- Major social-media effort to promote cashless transactions, which include e-banking, debit and credit cards, card-swipe or point-of-sales (PoS) machines and digital wallets.
- As an incentive to banks and manufacturers of PoS terminals, the government has waived 12.5 percent excise duty and four per cent special excise duty on these machines
- RBI has also issued licenses to open new-age small finance banks and payments banks which are expected to give a push to financial inclusion and bring innovative banking solutions.
- Government has also unveiled two schemes — Lucky Grahak Yojana and Digi Dhan Vyapaar Yojana — for customers and traders alike to promote mobile banking and e-payments.

Conclusion

India is gradually transitioning from a cash-centric to cashless economy. Digital transactions are traceable, therefore easily taxable, leaving no room for the circulation of black money. The whole country is undergoing the process of modernisation in money transactions, with e-payment services gaining unprecedented momentum. A large number of businesses, even street vendors, are now accepting electronic payments, prompting the people to learn to transact the cashless way at a faster pace than ever before. Targeted financial education programmes can improve financial skills and credit management. A nationwide financial literacy campaign should be accompanied by a medium-term strategy to improve access to, and awareness of, electronic payments. This move will help in curbing corruption and black money. For this government should incentives both consumers and sellers.

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