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By Madan Sabnavis

The elitist view is that cash is not required for daily transactions and that digitalisation is the way forward. If the local vegetable vendor was comfortable with e-wallet, so could be anyone else. This was also the stance taken midway through the demonetisation programme, which had started off as an anti-black money crusade and changed track to digitalisation. How has the public responded?

When there was less currency in the system, as there was a hiatus in the supply of new notes, it was natural that the public took to the electronic mode or reduced spending. With currency gradually being brought in by RBI, the picture has changed and there has been a tendency to gravitate back to cash. The table gives total volumes of transactions through the electronic payments for the last four months and juxtaposes the same on the outstanding currency in the system.

Currency in the system fell sharply by December. It is expected that the RBI will provide full supply by end-June, unless there is a conscious decision to hold back circulation.

₹ bn	Currency	EPS	Cards	Mobile banking	UPI
Oct	17,540				
Nov	11,642	94,004	352	1,245	0.9
Dec	9,137	1,04,055	522	1,366	7
Jan	9,921	97,011	481	1,206	16.6
Feb	11,395	80,765	352	904	17

The interesting part which emerges is that the overall level of electronic payments has come down over the last two months after having peaked in December. In November, the level was lower as the public had to adjust to the new system of working without cash. The dip in these levels following currency expansion does indicate that the system is veering towards earlier equilibrium. The volumes of card transactions have declined and the only segment, which is very small in size, the UPI (Unified Payments Interface) which facilitates e-wallets through the banking system, has been increasing.

There are some messages here. First, the public loves to hold cash as it is convenient and most preferred. Second, if one were to consciously print less currency, then there could be an increase in the electronic payments, though it could also lead to a higher velocity of circulation. Third, the use of cards can be made popular only in the case the cost of transactions comes down. At 2% merchant rate, it is fairly high. As these charges were waived in November and December, the use of this mode increased. Fourth, the issue of security has to be addressed.

Even today, people prefer to withdraw money from a bank rather than from an ATM. The recent incident of fraudulent notes in the ATM has raised a broader issue of what recourse is available in case a bank refuses to accept such an incident? Fifth, cyber security is extremely important because there are constant fears that accounts can be hacked or debited incorrectly. Redressal mechanisms are quite inadequate.

For going digital, it is essential to bring some rudimentary elements. First, it is awareness where people get to know how to use these options; second, giving incentives such as discounts. Forcing people to go digital as a punishment is not sustainable. Third, power supply in rural areas is essential to enable use of cards. Also connectivity on handsets is unavailable in the hinterland.

Such migration is a slow process and the government has to take a lead and spend money in creating structures, which it is not willing to do given the fiscal conundrums. At present, the system is moving more towards imposing punitive charges on bank customers, so that they are forced to move away from cash. This is not a solution, not just because it impinges on an individual's freedom, but it also exerts a burden on society. The cost of Rs 2,000 currency note is Rs 4 per piece, can revolve 100 times without any further cost. If the same 'value' circulates even 10 times involving Rs 20,000 worth of transactions, society pays Rs 200 at a merchant cost of 1%! The question is are we willing to pay for this?

(The writer is Chief Economist, CARE Ratings)

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