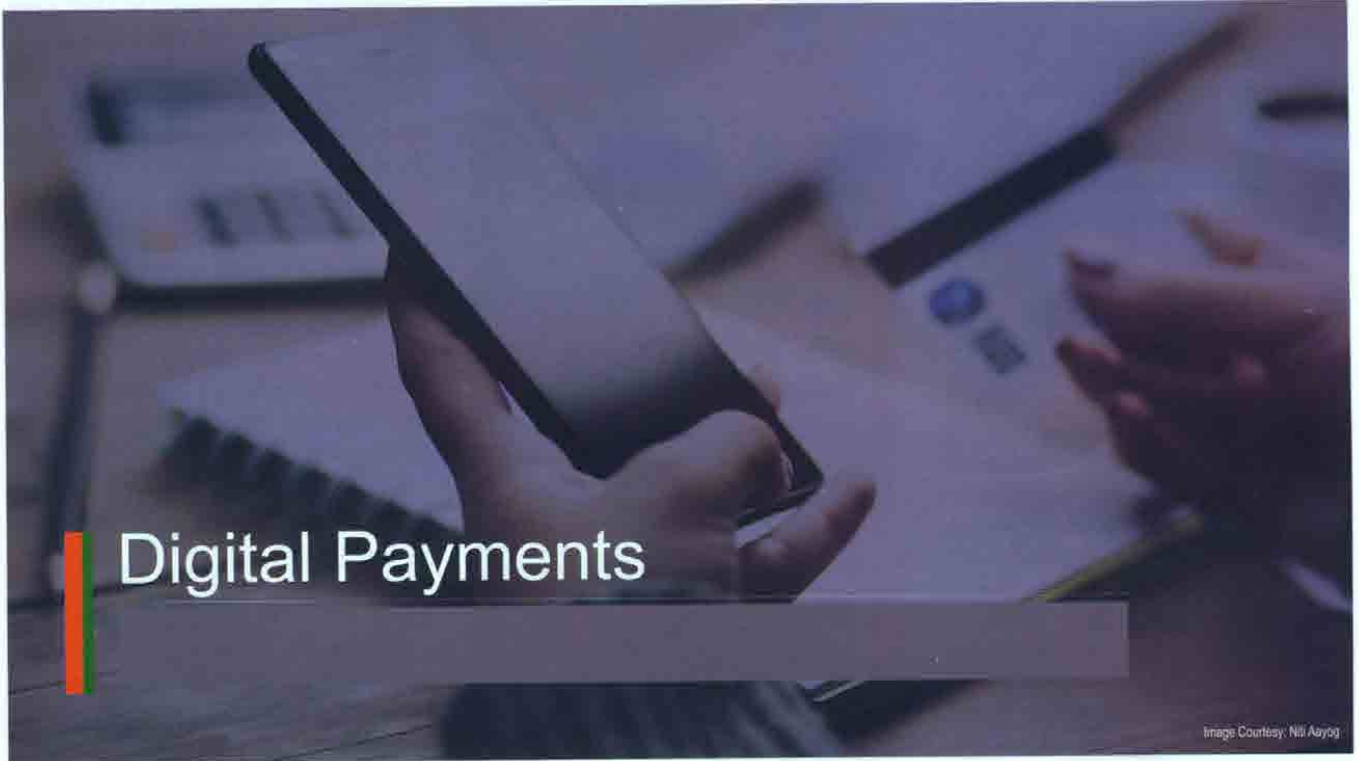


India in 2017

'Cashless' Is the Way to Go

The right set of incentives is required to hasten the process but more importantly the requisite infrastructure has to be in place with the security safeguards to ensure that the last mile is covered adequately.



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The idea of a cashless economy is compelling. This is so as most developed countries are in the digital mode where the use of plastics, e-wallets and Internet banking is all pervasive. Besides being an effective way to track all transactions in the economy, it reduces the burden of holding cash and hence enhances the safety of the same. It is not surprising that the ratio of currency held to GDP is in the region of 3-5% in most of these countries with only small denomination notes being in circulation. In case of India, it has been in the region of 12-14% which is definitely high. It is for this reason that in the current context of demonetization, the idea of having less cash has gained currency.

India has intrinsically been cash-driven economy as most economic transactions are carried out in a non-banking mode. At the commercial level, with around 40-45% of the GDP emanating from the unorganized sector, the most common form of transaction is cash—and this includes virtually the entire farm sector. At the household level, this is mostly due to holding cash being a habit for three reasons: transactions, precautionary and speculative. Cash transactions are more transparent for the receiver who gets immediate payment and hence the transactions motivation works both ways. Cash is held for emergencies in all Indian homes which is hard to dislodge until such time that there is an alternative available like cashless-

hospitalization for all, which looks virtually impossible. Speculative motive is where cash is held for dealings in areas where money can be made without the notice of the taxman. This is something which will get addressed once we move to a cashless world.

Besides being a habit, the culture of using bank accounts and products like cards or even e-wallets have not become too popular in the hinterland, though things are changing quite rapidly with the advent of technology which has made such transactions easier. Hence, while efforts have been made to open accounts, they are not being used and several people are still apprehensive of going digital even while they have their smartphones to make telephone calls. Probably an enthusiastic push is required from the government and banks to ensure that people change their habit.

The present impetus provided by demonetization can be viewed as a big decision taken which transforms the way in which we conduct our economic lives. Under the force of circumstances, people have been compelled to experiment and use alternative technology which hitherto was looked at with a bit of awe and suspicion. It is presumed that once the users realize that there is greater ease in transacting in this mode, the dependence on cash will come down. This can hence be regarded as the "Big Push" which is required to start the engine and put the vehicle in the second gear.

How soon can this be accomplished? This is a fairly challenging task given the spread of the country as well as the availability of requisite infrastructure which is critical for this scheme to work. The fact that our telecom revolution has pervaded all parts of the country gives reason to be optimistic that it can be achieved in a couple of years' time. There are however, some pre-requisites that need to be put in place for this to happen.

First, there needs to be the infrastructure which is essentially banks and banking products which can be har-

nessed by people. Major strides have been made in terms of having banking facilities available to all with Jan Dhan account which goes along with a debit card that can be used. With the proliferation of payments banks in the coming year, which will be working more through the Internet and digital world, these structures can be brought closer to the people. Hence, the issue of access can be addressed appropriately.

Second, there is a need to launch awareness programs for educating people on the benefits of using alternative forms of payments. While presently, the effort is on through advertisements in the audio and visual media, there is a need to go steps ahead and

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have physical interactive sessions especially in the smaller villages. One way out is to have it done through the panchayats where the sarpanches are taught and then spread the message.

Third, there is also a need to ensure that there are more Points of Sale (PoS) terminals for goods purchased by the households and that all outlets are equipped with the necessary devices so

that both the buyers and sellers are on the same wavelength when carrying our transactions. Here, given that we do not have power supply continuously in most villages and towns, the e-wallet concept would work better. But both options would need to be provided for.

Fourth, and equally importantly, for all these modes to work seamlessly, the security features need to be in place. While transacting through cards, wallets and Internet sound appealing, but the issue of cyber security is also important to be addressed. There have to be mechanisms in place which provide these security measures as there would be millions of such transactions which have to work smoothly without such threats.

Fifth, associated with such a transition are regulatory issues especially if there are more institutions in the loop and mechanisms which are presently not fully regulated like the e-wallets. The RBI would have a bigger role to play by bringing in the necessary regulations for the same.

Sixth, any kind of migration from cash to digital must have the right kind of incentives. Presently, there are charges levied on all such transactions which are borne either by the seller or the bank. To make it attractive, this cost has to be reduced or eliminated as this can be a deterrent for users. In fact, to make it more appealing, it is essential to provide incentives, and some of the announcements made by the government in the context of demonetization where there are discounts offered on purchase of railways tickets or fuel are steps in the right direction. In fact, providing discounts on card purchases



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is a very effective way of getting people to use them.

Seven, as banks would probably be the most important entity in the middle of this transition, there has to be an extra effort put in to ensure that they are incentivized for the same. Besides being trained, bankers need to go out to the households and educate them while selling their products. They have to also strengthen their backend to ensure that these transactions go through in a seamless manner.

Last but not least, citizens need to have an open mind and be more amenable to transiting to these forms of payments. This would probably be the biggest challenge, and while the seven other points mentioned earlier are necessary conditions, this would still take time to work out as they need to be convinced that cash need not be kept at home for 'security or precautionary' reasons. This is where the government has to pitch in and ensure that the 'security' concern of households is addressed appropriately. The 'transactions' motive could be addressed through the incentives structure, while the 'speculative'

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objective could be curbed by reducing the quantum of currency in the system. It is the precautionary motive that leads to excess hoarding of cash.

To conclude, it can be said that the move towards a cashless economy is required and the benefits in the long run would be enormous. Besides enhancing efficiency, it also keeps a check on black money generation as there is a trail of all transactions. In the medium run, the government also benefits through higher revenue collections.

The route is, however, long and punctuated with impediments given the di-

verse nature of the people. The time taken for fulfillment would depend on how fast people are responsive. Just like it is still a challenge to convince people not to buy gold but switch over to the 'gold bond' schemes of the government, divesting oneself from cash will be even harder. The right set of incentives is required to hasten the process but more importantly the requisite infrastructure has to be in place with the security safeguards to ensure that the last mile is covered adequately. ■

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