

# IAS PARLIAMENT

*A Shankar IAS Academy Initiative*

**YOJANA - FEBRUARY - 2017**

## LESS CASH ECONOMY



**SHANKAR IAS ACADEMY**

Plot No.1742, 1<sup>st</sup> Floor, 18th Main Road, Anna Nagar, Chennai – 600 040.

Phone : 044-26216435, 64597222, 4353 3445, Mobile : 94441 66435

[www.shankariasacademy.com](http://www.shankariasacademy.com)

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### LESS CASH ECONOMY

#### 1. FROM A CASH ECONOMY TO A LESS - CASH ECONOMY

On November 8, 2016, the Government demonetised currency notes of two denominations Rs.500 and Rs.1000. Together they constituted 85% of total value of notes in circulation. Demonetisation was done due to following reasons.

- Curb financing to terrorist activities
- Elimination of black money
- Eliminate counterfeit currency
- Major shift towards cashless society

#### *Advantage of Less cash economy*

- Makes the mode of payment as convenient. The cashless economy offers everyone (apart from low income groups), enormous benefits, including reduction in transaction cost of carrying and doing business/transactions in cash.
- With proper Cyber Security, Online Payment is hassle - free, risk free, whereas, there are always safety issues with the physical cash.
- In 2015, the cost of printing currency to RBI is Rs.27 billion. The cost can be reduced and the same can be utilised for other welfare programmes if the economy move towards cashless economy.
- The cashless economy will tend to decrease many anti-social and illegal activities like drug trafficking, prostitution, financing of terrorism and money laundering, as these are carried out in cash only.
- A digital economy will help the banking system as there would be less demand for cash holding; this would leave more cash in the banking system and thereby enable more savings.
- Digitisation of payments improve transparency and monitoring easily. Therefore tax evasion would be difficult and would enhance revenue collection.

#### **Government initiatives towards cashless safety**

- With aim of incentivising digital payments, the government launched digital lottery schemes.
  - Lucky Grahak Yojana, for consumers
  - Digi Dhan Vyapar Yojana for merchants.
- Ministry of Human Resource and Development launched Vittiya Saksharta Abhiyan (VISAKA) scheme and appealed to student community to pay their fees and dues in digital means. The main purpose of the campaign to create awareness and motivate people to go for digital payment.
- Government launched BHIM (Bharat Interface for money) App which requires only the phone number, which is linked to the Bank account for transactions, which are facilitated through the unified payment interface (UPI).
- RuPay, the Indian version of credit / debit card is launched to cater the needs of Indian population.
- The Aadhaar payment App was launched by Government, which links Aadhaar Number to bank accounts and it requires biometric reader for payments. One special feature is that the payments can be made from person to person without the help of the phone.

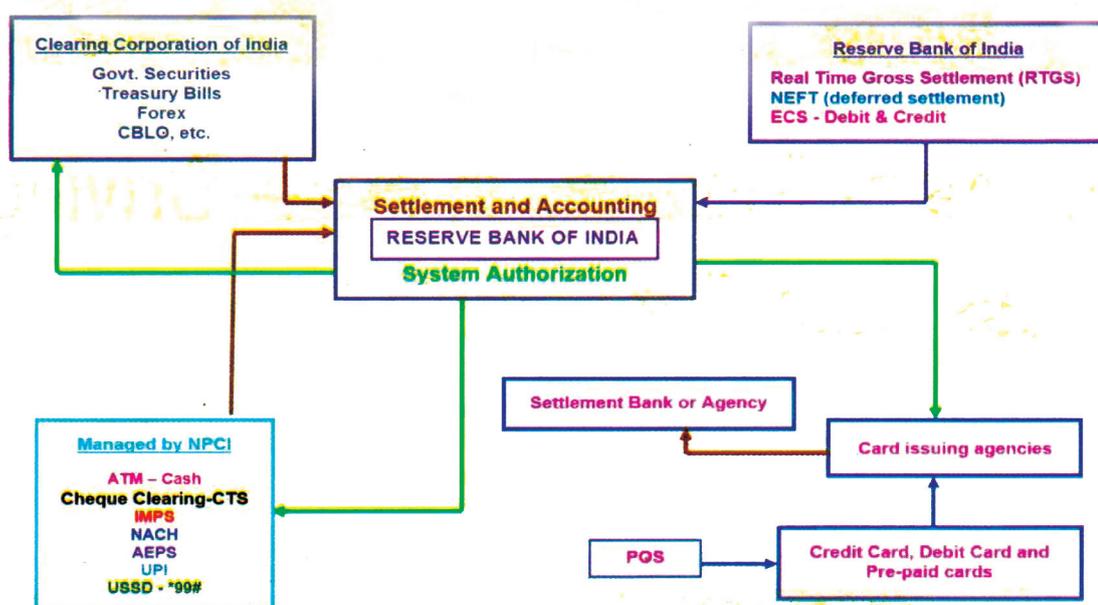
## Challenges

- Infrastructure in rural areas like Banks, ATMs are low and financial literacy is low when compared to urban areas.
- The e-Wallets and mobile payments needs a Smartphone and internet connection. Cyber security remains a concern.
- The swiping a card at small shops and vendors is not risk free and the confidentiality of details remain a big question mark.
- Any attempt at fighting corruption that does not involve bringing transparency to the funding of political parties cannot be meaningful or successful.

## 2. PAYMENT SYSTEMS IN INDIA - DRIVING LESS CASH ECONOMY

In order to process a payment without movement of cash, the payer and receiver of the payment have to be within the ambit or participant of a payment system.

Payment system means a system that enables payment to be effected between a payer and beneficiary involving clearing, payment or settlement service or all of them, but does not include a stock exchange.



- The first steps of introduction of mechanisation through electronics was introduction of MICR (magnetic ink character recognition) technology for cheques in 1986.
- Then RBI started paperless electronic clearing service (ECS-Cr) in mid 1990s and then Electronic Fund Transfer (EFT) like RTGS and NEFT were introduced.
- For any interbank payment system there has to be a central trusted counter-party which will settle the transactions between two participants. Traditionally RBI is the case settlement agency, with the passage of payment and settlement Act 2009, RBI is empowered to authorise payment systems which can settlement payments among participants.

- National Payment Corporation of India (NPCI) and the clearing Corporation of India Ltd (CCIL) are two of the major authorised organisations permitted by the RBI to offer payment services.
- NPCI rolled out, variety of payment products like IMPS, NACH, CTS, AEPS, UPI etc. It also established a retail bill payment system BBPS - Bharat Bill payment system which enables the user to pay Bills from anywhere in the country.
- Apart from these, there are many payment service provider offering wallet services. Some of them are paytm, Billdesk, CC Avenue, Instamojo etc.
- The above payment systems have brought down cash payments and even transactions through cheques are not growing at levels which were seen earlier. Payment systems are at the forefront of moving towards a less cash economy.
- Payment instruments penetration is less. In India 0.5 coads per person, while in Sweden it is 2.5 per person and South Korea it is 5.5 per person.
- In many countries digital payments are made as preferential value added tax treatment but in India, it puts costs on the transactions made through digital means.
- India has the lowest number of point of sale (Pos) Terminals, which is the base for the digital payments and the cashless transactions.
- Smartphone penetration is low. In India only 17% of adults have the smartphone while in South Korea it is 88% and 26% in Kenya.
- The fixed broadband subscription per 100 inhabitants is only 1.34 for India as compared to 36.01 Sweden and 40.25 in Korea.

### 3.LESS CASH ECONOMY : INDIA VIS-A-VIS THE WORLD

A number of countries including Sweden, Kenya, Brazil have successfully moved towards a less cash economy. Their experience shows that “Less-cash” economy needs supporting regulations ensuring security of online transaction, robust infrastructure and customer centricity.

#### Comparison

- Comparing India with some of the other countries shows that the currency in India is higher than many developing and developed countries. The cash in circulation in economy is 12.3% of GDP of India.
- More than 68% of the transaction in India were settled in cash, one of the highest among the world after Indonesia and Russia.
- The usage of credit cards in India has also been much lower compared to many developed and developing countries.
- Countries like Kenya and Nairobi successfully moved towards less cash economy. India can also move towards such an economy by increasing the use of technology based innovative payment products.
- The key areas which need immediate attention are cash payment for retail and wholesale transactions and payment to informal workers. These must be brought into digital payments.
- The countries like Sweden makes digital payments to all Government transactions, payments and this can be implemented in India also.
- The model villages like Ibrahimpur, Akodora must be taken as example and we must strive hard to change to less cash economy.
- The Government should ensure neutrality of payments. Payments though cards, should not be costlier than payments through cash.

#### Global experiences and way forward

- The cyber security level must be enhanced. In Sweden after digitisation of economy, bank robberies declined but there is a steep rise in online payment frauds. So this must be kept at vigil.
- The lower taxes on digital payment instruments like Pos terminals, Smartphone will aid the digital economy transformation as it is evident from South Korea.
- The country must have a robust e-commerce policy and reputation which ensures consumer protection for cashless payments.
- People who have earned black money through corruption and unfair means will be found-out and punished and thus paves way for corruption free society.
- It will enhance the FDI investment as the process becomes more transparent and accountable.
- The unearthed black-money will be helpful in reducing the fiscal deficit of the country.
- Demonetisation, which is done at regular intervals will check political corruption and spending of illicit money in elections.

## 4. DEMONETISATION AND CASHLESS ECONOMY

Cashless economy means more and more use of digital mode and less use of cash in transactions. In other words it does not mean the strategy or less supply of cash but less use of cash and more use of digital transactions i.e. credit cards, debit cards, internet banking etc.

### *Perspectives of demonetisation*

- It will Check Money hoarding and as a result, more money will be pumped into the banking system.
- The opening of new bank accounts and deposition of banned currencies shows that it has prompted banking literacy and connected the population with banking system.
- The rise in savings deposits strengthened the banking system, enhanced their credit facilities as many banks suffered by the paralysis of NPA.
- Excess income deposited in banks may generate revenue for Government through taxation measures.
- During remonetisation process, the flow of money will be slow and hence inflation can be controlled.
- Money unearthed during demonetisation can be utilised for programs which reduce poverty and unemployment conditions.
- The size of informal or parallel economy must be curtailed. All payments must be brought into digital transactions.
- The interest rate on debit on credit cards must be reduced to incentivise the digital economy revolution.
- Adequate bank branches, ATMs must be set up in backward and rural areas to make the untapped population go for digital economy.
- The Self Help Groups (SHG) must be employed in promoting digital banking in rural areas.
- Like Pulse Polio campaign the Digital India Campaign twice or thrice in a year on mass scale must be conducted.
- At last, strong political will among both the ruling and opposition parties is necessary for the implementation of any economic reform including de-monetisation and cash-less economy in the country.

### *Suggestions*

