



## RSTV Big Picture: Cashless Economy

- **Context:**

- Announcements made in Budget 2019:

- In a bid to promote cashless transactions, businesses with annual turnover of over Rs 50 crore can offer low-cost digital modes of payments and no charges or Merchant Discount Rate will be imposed on them or their customers.
- Two per cent tax deducted at source will be levied on cash withdrawals exceeding Rs 1 crore in a year from a bank account to discourage the practice of making business payments in cash.
- Adoption of RuPay National Common Mobility card (NCMC) shall trigger the consumer behaviour change for all the transit use cases. This will enable people to pay multiple kinds of transport charges, including metro services and toll tax, across the country.
- Experts believe that the budget facilitates the transformation of Indian economy from Cash driven to less cash. With all the efforts from the government and RBI, India could emerge as world leader and innovation hub for digital payments in next 5 years.

- Reply of Minister, the Ministry of Electronics and IT in Parliament: Digital payment transactions have grown multi-fold from 316 crore in 2014-15 to 2,182 crore in 2018-19.

- No charges on NEFT, RTGS money transfers from July 1:

- The RBI had asked banks to pass on the benefits of the same to its customers.
- Real Time Gross Settlement is instantaneous fund transfer, while the national electronic funds transfer (NEFT) system is used for fund transfers of up to Rs 2 lakh.
- Previously, RBI used to levy minimum charges on banks for transactions routed through its RTGS and NEFT system, while the banks, in turn, imposed charges on their customers.
- The RBI has also constituted a high-level committee under IBA Chief Executive V G Kannan to examine ATM charges and fees by banks amid demands for reviewing the charges.

- NITI Aayog recently pointed out that the digital payments market in India is set to become a trillion-dollar industry in the next five years, led by growth in mobile payments which are slated to rise to \$190 billion by 2023 from \$10 billion in 2017-18.

- **Background:**

- A **Cashless Economy** is an economy in which all types of transactions are carried out through digital means. It includes e-banking (Mobile banking or banking through computers), debit and credit cards, card-swipe or point of sales (POS) machines and digital wallets.

- The Payment and Settlement Act, 2007 defines Digital Payments as any transfer of funds which is initiated by a person by way of instruction, authorization or order to a bank to debit or credit an account maintained with that bank through electronic means and includes point of sale transfers; automated teller machine transactions, direct deposits or withdrawal of funds, transfers initiated by telephone, internet and, card payment.

- Payment Systems:

1. Systemically Important Financial Market Infrastructure:

- a. Real Time Gross Settlement (RTGS),
- b. Collateralized Borrowing and Lending Obligation,
- c. Forex Clearing and
- d. Government Securities.

2. Retail Payments:

- a. Paper Clearing,
- b. Retail Electronic Clearing and
- c. Card Payments which includes Cheque Truncation System (CTS), National Electronic Funds Transfer, Unified Payments Interface, Immediate Payment Service etc.

- Practical implementation for moving on path of going cashless (in context of India):

- Payment banks
- Electronic Fund Transfer Systems
- Mobile Wallets
- Internet Banking
- Banking cards
- Banks pre-paid cards
- Point of sale
- Mobile Banking

- Benefits of Cashless economy:

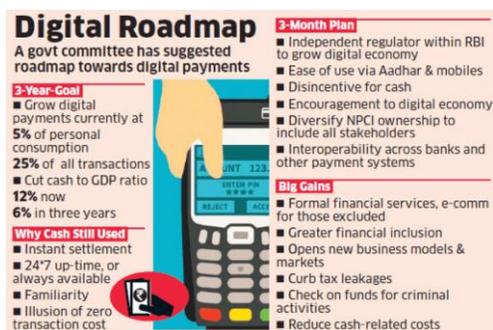
- It reduces cost of transactions since cashless transactions are fast, easy, convenient.



- It promotes more transparency and accountability.
- It increases tax compliance.
- It keeps black money under control.
- It hinders the terror financing network and circulation of counterfeit notes.
- Convenience, Discounts, Tracking spending, Budget discipline.
- Challenges:
  - Low internet penetration and Low levels of digital literacy leads to unbanked population: About 19 percent of the Indian population is still outside the banking net.
  - Cyber threats: It cost the global economy 1% of annual GDP.
  - Higher risk of identity theft, losing phone, difficult for non-tech-savvy, overspending.
  - India is a currency dominated economy, transactions are mainly in cash. ATM use is mainly for cash withdrawals and not for settling online transactions.
  - Though bank accounts have been opened through Jan Dhan Yojana, most of them are lying non-operational.
  - Since, India is dominated by small retailers; therefore they don't have enough resources to invest in electronic payment infrastructure.
- The Digital Divide in India:
  - In Networked Readiness Index (NRI) 2016 India ranked 91st among 139 countries, while occupying the 134th position among 171 countries assessed in computing the ICT Development Index 2017. This poor performance is primarily attributed to lack of coverage and penetration of basic digital infrastructure, as well as educational and skill deficit.
  - Even after 70 years of independence, around 24 percent of the Indian population continues to have no access to electricity.
  - As far as mobile broadband is concerned, there are 5.5 subscriptions for every 100 people.
  - There is also a stark disparity in connectivity across states, explained by differing levels of affluence.
  - There are three primary sources of financial exclusion in India: Poor physical access (low penetration of bank branches and ATMs); lack of financial access (high interest rates on credit, low savings that make bank accounts unviable); and low rates of financial literacy.
  - Lack of a widespread merchant acceptance network in India.
  - Ninety-two percent of the Indian workforce is employed in the informal economy.
- Initiatives taken to promote Cashless Economy:
  - The National Payments Corporation of India was established in 2008.
  - Initiatives like CTS, RuPay, Aadhaar Payments Bridge System and Aadhaar Enabled Payment System, National Unified USSD Platform, UPI and the BHIM application.
  - Half-hourly interval settlement under NEFT system.
  - Rationalisation of Merchant Discount Rate.
  - Non-bank entities have been introduced in the issuance of pre-paid instruments (PPI), including mobile and digital wallets.
  - DigiShala: Free Doordarshan DTH educational channel for creating awareness regarding various forms of electronic payment.
  - Vittiya Saksharta Abhiyan: aims to actively engage the youth/ students of Higher Education Institutions to encourage and motivate all payers and payees to use a digitally enabled cashless economic system for transfer of funds.
  - In an attempt to encourage poor and illiterate people in rural areas to make digital payments, the government is promoting Aadhaar Pay which ensures financial transactions by just using fingerprint.
  - The "Digital India Initiative" has been set up to provide internet access and comprehensive mobile phone coverage across India, helping over a billion people to get online and utilize digital payment techniques.
  - RBI Guidelines of April, 2018: It asked payments firms to adhere to data localization norms, suggesting these companies had to store data on Indian servers only. Companies were given six months to comply with the banking regulator's order. While foreign companies are adhering to RBI's data localization rules, they have maintained that storing data on Indian servers would require setting up data storage infrastructure in the country, which would increase their costs.
  - Demonetization drive, 2016.
  - Budget 2017:
    - ❖ Ban on cash transactions more than Rs 3 lakh.
    - ❖ Tax breaks for the creation of a cashless infrastructure.
    - ❖ Greater usage of non-cash modes of payments and making Aadhaar-based payments more widespread.
    - ❖ Incentivize greater use of non-cash transactions for small businesses by lowering the tax rate on presumptive income to 6% from 8% for all non-cash transactions.
    - ❖ Tax exemptions for manufacturers of point-of-sale (PoS) card readers, mobile PoS, fingerprint readers and iris scanners.
    - ❖ Setting up of a separate payments regulator within the Reserve Bank of India to regulate the payments space.
    - ❖ A review of the Payments and Settlements Act will also be undertaken, aimed at its overhaul.



- ❖ The government will take steps to encourage and possibly mandate digital payments at petrol pumps, fertilizer depots, road transport offices, universities, colleges, hospitals and other institutions.
  - ❖ It also announced two new schemes—Referral Bonus Scheme for individuals and a Cashback Scheme for merchants—to promote the usage of the BHIM app aimed at encouraging merchants and individuals to use the app and make more digital payments.
  - ❖ Railways will no longer levy service charge on train tickets booked online through the IRCTC website.
  - ❖ The budget suggested additional cashless initiatives such as Aadhaar-based smart cards for senior citizens.
  - ❖ It also announced a computer emergency response team for the financial sector (CERT-Fin) to increase security of digital transactions.
- The Payment Systems Vision 2018 of RBI assessment:
- Digital payment transaction turnover vis-à-vis GDP increased from 7.14 in 2016 to 7.85 in 2017 and further to 8.42 in 2018.
  - Debit card usage at Point of Sale (PoS) vis-à-vis ATM is 30.1 % of total in terms of volume (10.4 % in 2014-15).
- Payments System-2021:
- Vision Statement – Empower every Indian with access to a bouquet of e-payment options that is safe, secure, convenient, quick and affordable.
  - Vision 2021 concentrates on a two-pronged approach of, (a) exceptional customer experience; and (b) enabling an ecosystem which will result in this customer experience.
  - To achieve the above, the Vision envisages four goal-posts (4 Cs) – Competition, Cost, Convenience and Confidence.
- Nandan Nilekani-led panel on digital payments:
- It has set a target for the government and regulators to achieve a ten-fold volume growth in digital payments over the next three years through customer friendly pricing mechanisms and broadening access infrastructure.
  - Banks need to ensure that no user is more than 5 km away from a banking access point.
  - Removing transaction charges on digital payments made to government, inducing a competitive Merchant Discount Rates (MDR) pricing structure and easing KYC costs to banks are amongst the key recommendations put forward by the committee.
  - Government being the single largest participant in payments should take the lead on all aspects of digitization of payments.
  - Special impetus on digitising mass volume channels such as recurring bill payments, toll and ticket payments at public facilities and digital onboarding of kirana store merchants.
  - The panel has also asked the government to set up special risk mitigation and complaint registering digital portals.
- Key recommendations of Watal Committee, 2016:



- Data related to Digital Payments in India: Source: Nilekani Report, 2019

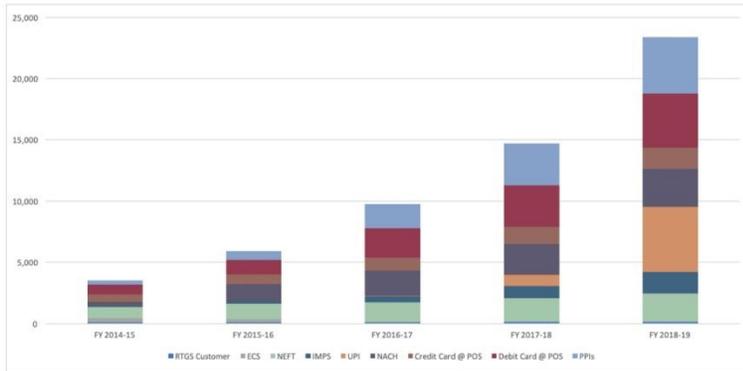


Figure 1 Digital Payments By Volume

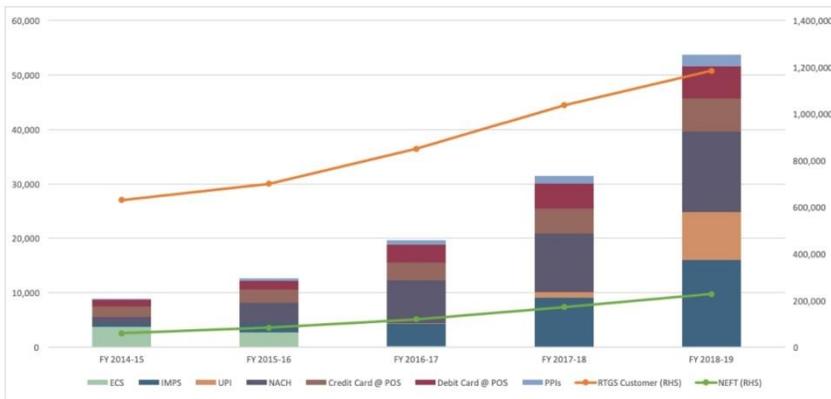


Figure 2 Digital Payments by Value

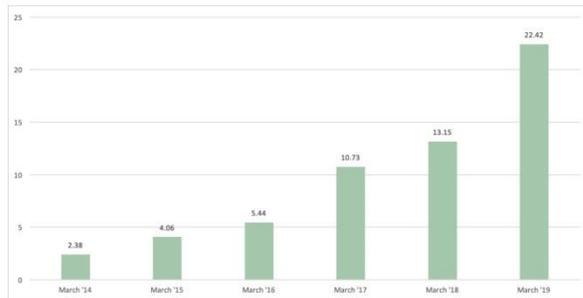


Figure 3 Digital Payments Per Capita (India)

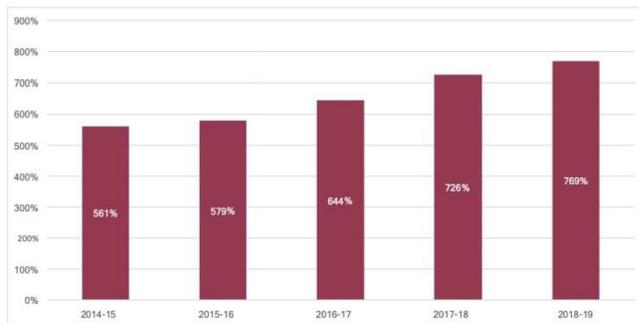


Figure 4 Digital Payments as a percentage of GDP

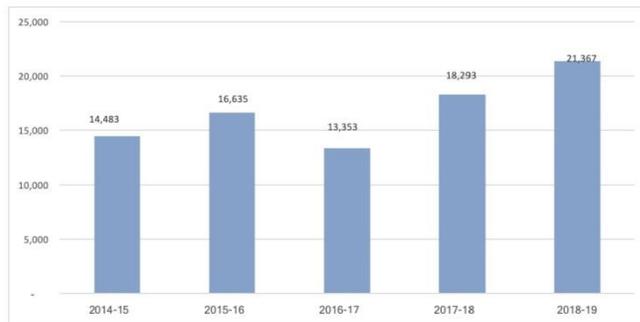


Figure 5 Currency in Circulation (INR Billion)

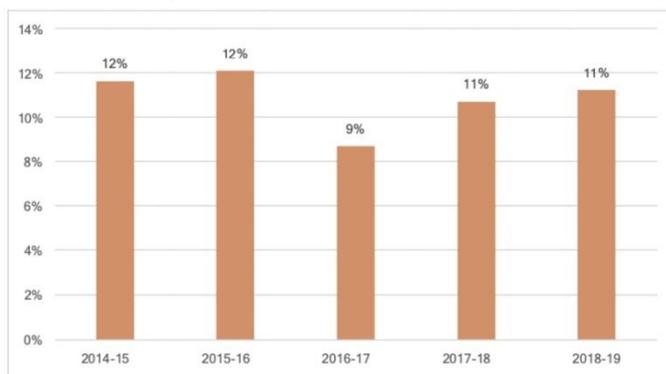


Figure 6 Currency in Circulation as a percentage of GDP

- **International examples of successful cashless economies:**

- a. Sweden: Sweden is one of the most prominent examples of a nearly cashless society. According to the Riksbank, Sweden's central bank, cash transactions accounted for two percent of the value of all payments made in Sweden in 2015. So ubiquitous is the use of non-cash transactions that even street vendors and churches prefer card or mobile payments. In order to leverage the existing electronic banking infrastructure, banks and merchants invested heavily in the card payments systems in the beginning of the 1990s. A widespread network of card acceptance infrastructure provided by merchants, nearly universal bank account ownership and access to cards, the immense trust that Swedes have in their financial institutions and being home to a tech-savvy people have enabled Sweden to make 'cashless society' a reality.
- b. China: In China, the share of non-cash transactions in total retail transactions has increased from 39 percent in 2010 to more than 60 percent in 2016. China managed this leap in only five years with the aid of the smartphone. Despite being faced with low levels of financial inclusion, China has managed to make significant gains in terms of digital transactions. This is what distinguishes China's model of digitalisation from that of countries such as Sweden. China's model showcases how technology and digital innovation can allow faster ways of disrupting the use of cash.

- **Specific strategies that will lead India closer to being a cashless economy:**

- **Measures in the short run:** Service providers operating in the digital payments landscape have relied significantly on discounts, cashbacks and other such offers to get around the proclivity of cash use. Measures involve subsidising the cost of using digital payments instruments, making them affordable. Although the above mentioned initiatives have yielded positive results, there is doubt whether the momentum of use of digital payments will remain once these cashbacks, discounts and subsidies are rolled back. In this scenario, the option of intelligent and powerful advertising for promoting cashless payments and awareness campaigns about the costs and inconvenience of operating a cash-based payments system appear as effective alternatives.
- **Long-term strategies:** To unlock this potential, India has to address its structural deficiencies. The formalisation of India's informal economy, financial inclusion, increased smartphone ownership supported by rising incomes, and improved digital infrastructure will boost usage of UPI, M-Wallets, and debit and credit card transactions in India.
  - Digitalising India's Industrialisation.
  - Addressing skill deficit and illiteracy in India

- **Conclusion:** India's aspiration to reach its pinnacle cannot bypass core structural deficiencies of the system. There are no shortcuts to becoming cashless. The strategy directed towards "Cashless India", to be successful, must prioritise investing in correcting structural anomalies over other measures.



SOURCES:

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