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THE BENEFIT'S AND CHALLENGE'S IN CASH AND CASHLESS ECONOMY IN INDIA

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Introduction

The RBI and the Government are making several efforts to reduce the use of cash in the economy by promoting the digital/payment devices including prepaid instruments and cards. RBI's effort to encourage these new verities of payment and settlement facilities aims to achieve the goal of a 'less cash society'. Here the term less cash society and cashless transaction economy indicate the same thing of reducing cash transactions and settlement rather doing transaction digitally. Cashless transaction economy doesn't mean shortage of cash rather it 'indicates a culture of people setting transactionsdigitally. In a modern economy, money moves electronically. Hence the spared of digitally payment culture along with the expansion of infrastructure facilities is needed to achieve the goal. Government withdrawer Rs. 500 and Rs. 1000 notes-two highest denominations in circulation. Main objectives were to fight counterfeit money and black money. The action has given tremendous boost to cashless transactions as card based and digital payments were not hindered when all high denomination cash transactions suffered because of absence of high denomination currencies.

The recent move of demonetization has rattled the dusty cages of cash based economy and forced the people to rethink the MO of transactions and trade. The demonetization drive was initially termed as a tool to tackle the problem of black money and fake currency, but since then, the narrative has clearly shifted base. Now it is a way to promote cashless transactions among citizens, which is really a good idea for the country. But the question is whether India is ready for it or how feasible it would be for the government to turn India into a cashless economy by 2020.India has a large amount of black money. According to recent estimates around 1/4th of Indian GDP is the shadow economy of India, which is like a parallel dimension slowly sucking out energy and matter from our dimension (economic ecosystem). However, one thing needs to be made clear that of all the black money in India only 10% of it is in horded cash and the rest is in floating in the market or is in form of gold, stocks or real estate. The success or failure of demonetization as a means to curb black money and fake currency can only be determined after a couple of months but the fact that digital economy is good for the country, is overwhelmingly accepted as true.What you need to know is, how it can be beneficial for our country and what are the challenges in front of India in going cashless

Objective of Cashless Economy

Cashless Economy has a very simple objective

1. Curb black money in Indian Economy
2. Stop the flow fake currency notes in Indian economy

Efforts Towards Cashless Transaction Economy

The RBI and government have launched several measurers for the spread of electronic and other non-cash settlement culture. The Vision-2018 for payment and settlement system in India brought by the RBI in June 2016 reiterates the commitment to encourage grater use of electronic payments by all sections of society so as to achieve a less-cash society. The broad contours of Vision-2018 revolve around five Cs-Coverage, convenience, confidence convergence and cost. To achieve these, vision-2018 will focus on four strategic initiatives such as responsive regulation, robust infrastructure, effective supervision and consumer-centricity, -RBI.

The Vision Statement Highlights Following Plans

1. The regulator wants to reduce the share of paper-based clearing instruments.
2. It aims to raise growth of the digital payments space.
3. It wants to ensure accelerated use of Aadhaar in payment systems.

Government also made fiscal measures for the encouragement of card culture in the 2016 budget. Exempting service charge on card-based and other digital payments was one such step. Aadhar based payment system will be a big boost for promoting the cashless transition culture. The technology has spread internet banking, mobile banking, prepaid instruments, credit and debit cards etc. and at the same time, electronic payments system is fast growing. All these indicate that India is moving towards the RBI's goal of cash economy-steady but slowly.

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Benefits of Cashless Economy

1. **Reduced Maintenance Costs:** The logistics and supply chain of cash is costing the exchequer a fortune. The amount of money required in printing cash, its storage, transportation, distribution and detecting counterfeit currency is huge.
2. **Transparency in Transactions:** Needless to say, electronic transactions or plastic money always leaves a digital proof beneficial for both the taxpayer (consumer) and the tax collector (government).
3. **Higher Revenue:** A derivative advantage of transparent transactions is collection of tax will increase. Thus generating higher revenue for the government, which in turn will be converted into public welfare policies and schemes?
4. **Financial Inclusion:** The will to have a cashless economy will promote financial inclusion of the people. It will compel the government to connect all the households with a bank and plastic economy.
5. **Lower Transaction Costs:** Digital transaction is a boon in terms of processing costs and waiting time. If implemented properly, it will increase the consumption and production rates, thereby improving the economy.
6. **Challenges Ahead:**However, in a country of 1.3 billion people, not all is perfect and not all is rosy. Going cashless must be an exponential curve, slow initial buildup then fast paced in later stages, not a digital step signal. That could be counterintuitive to the whole process. India is a large country that needs a change that is systemic and systematic. Here is a list of challenges-
7. **High Cash Dependency:** India has a high cash penetration in almost all of its transactions that happen as B2C transactions. Total cash flow in the market accounts for 12.04% of the GDP, which is among the highest in developing countries. This goes to show our dependence on cash is acute and it requires time to tackle it.
8. **Lack of Digital Infrastructure:** The first and foremost requirement of a digital economy is the penetration of internet and smartphone. Although a billion mobile subscriptions (not users), only 30% of subscribers use smartphones. With 370 million mobile internet users, over 70% of them are in cities while 70% of Indian population lives in villages.
9. **Skepticism in Merchants:** Small time merchants as well as users have high amount of suspicion over plastic money and they need to be educated over the potential benefits of using it. One cannot expect an overnight change in the perception of a majority of Indians over the use of plastic money. Government needs to come out with awareness and incentive schemes to promote digital economy.
10. **High Merchant Discount Rate:** These are the percentage deducted from each purchase a merchant makes by the card issuing authority or bank. These are volume dependent and are more economical if the merchant is able to sell a large amount of products, thereby beneficial for big merchants. For smaller merchants, it does not provide enough incentive to make the shift from cash.

Challenges In Transitioning To A Cashless Economy

1. **Acceptance Infrastructure and Digital Inclusion: -** Lack of adequate infrastructure is a major hurdle in setting up a cashless economy. Inefficient banking systems, poor digital infrastructure, poor internet connectivity, lack of robust digital payment interface and poor penetrations of PoS terminals are some of the issues that need to be overcome. Increasing Smartphone penetration, boosting internet connectivity and building secure, seamless payments infrastructure is a prerequisite to transition into a cashless economy.
2. **Financial Inclusion:** - For a cashless economy to take off the primary precondition that should exist is that, there should be universal financial inclusion. Every individual must have access to banking facilities and should hold a bank account with debit/credit card online banking facilities.
3. **Digital and Financial Literacy: -** Ensuring Financial and digital inclusion alone is not sufficient to transition to a cashless economy. The citizens should also be made aware of the financial and digital instruments available and how to transact using them.
4. **Cyber Security: -** Digital infrastructure is highly vulnerable to cyber-attacks, cyber frauds, and phishing and identity theft. Off late cyber-attack have become more sophisticated and organized and poses a clear and present danger. Hence establishing secure and resilient payment interfaces is a pre-requisite for going cashless. This includes enhanced defenses against attacks, data protection, addressing privacy concerns, robust surveillance to pre-empt attack and institutionalized cyber security architecture.
5. **Changing habits and attitude: -** Indian economy functions primarily on cash due to lack of penetration of e-payment modes, digital illiteracy of e-payment and cashless transaction methods and thirdly habit of handling cash as a convenience. In this scenario, the ideal thing to do is to make people adopt e-payments in an incremental fashion and spread awareness to initiate behavioral change in habits and attitude.
6. **Urban-Rural Divide: -** While urban centres mostly enjoy high speed internet connectivity, semi urban and rural areas are deprived of a stable net connection. Therefore, even though India has more than 200 million Smartphone’s,

it is still some time away for rural India to seamlessly transact through mobile phones. Even with regard to presence of ATM's PoS terminals and bank branches there exists a significant urban-rural divide and bridging this gap is a must to enable a cashless economy.

Making India A Cashless Economy

The government is working at various levels to reduce the dependence on cashEven as ordinary citizens queue up for cash and economists are busy estimating the extent to which economic growth will be hit because of the ongoing drive to replace high-value banknotes, there has been a lot of discussion on whether the government can use the current situation to push India towards a cashless future, Prime Minister once again pitched for creating a cashless society.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. According to a 2014 study by Tufts University, The Cost Of Cash In India, cash operations cost the Reserve Bank of India (RBI) and commercial banks about Rs21,000 crore annually. Also, a shift away from cash will make it more difficult for tax evaders to hide their income, a substantial benefit in a country that is fiscally constrained.To be sure, the government on its part is working at various levels to reduce the dependence on cash. Opening bank accounts for the unbanked under the and adoption of direct benefit transfer is part of the overall idea to reduce usage of cash and increase transparency.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. Things are also falling in place in terms of technology for India.

The recently launched Unified Payments Interface by National Payments Corporation of India makes digital transactions as simple as sending a text message.So, will the exercise to exchange currency notes and the ongoing currency crunch be a decisive factor in making India a truly cashless economy.In an interview to this newspaper, termed this as "a defining point in India moving to cashless". Shortage of cash has significantly increased the use of digital modes of payment, but the actual shift will only be visible after the cash crunch eases. It is possible that a section of people which has used electronic mode of payment for the first time due to the cash crunch will continue to transact through this medium, but there are still a number of hurdles in making India a cashless economy.First, a large part of the population is still outside the banking net and not in a position to reduce its dependence on cash. According to a 2015 report by PricewaterhouseCoopers, India's unbanked population was at 233 million. Even for people with access to banking, the ability to use their debit or credit card is limited because there are only about 1.46 million points of sale which accept payments through cards.Second, about 90% of the workforce, this produces nearly half of the output in the country, works in the unorganized sector. It will not be easy for the informal sector to become cashless, and this part of the economy is likely to be affected the most because of the ongoing currency swap. Third, there is a general preference for cash transactions in India. Merchants prefer not to keep records in order to avoid paying taxes and buyers find cash payments more convenient. Although cashless transactions have gone up in recent times, a meaningful transition will depend on a number of things such as awareness, technological developments and government intervention. For instance, mobile wallets have seen notable traction, and it is possible that a large number of Indians will move straight from cash to mobile wallets. A study by Boston Consulting Group and Google in July noted that wallet users have already surpassed the number of mobile banking users and are three times the number of credit card users.
However, as noted above, a material transition to a cashless economy will depend on a number of factors. First, the availability and quality of telecom network will play an important role. Presently, people face difficulties in making electronic payments even in metro cities because of poor network. Second, as one of the biggest beneficiaries of this transition, banks and related service providers will have to constantly invest in technology in order to improve security and ease of transaction. People will only shift when it's easier, certain and safe to make cashless transactions. Third, the government will also need to play its part. It will have to find ways to incentivize cashless transactions and discourage cash payments. Implementation of the goods and services tax, for example, should encourage businesses to go cashless. Government should also use this opportunity to revamp the tax administration, as more than taxes, small businesses fear tax inspectors.The government will have to create conditions—not necessarily by creating cash shortages—to push cashless transactions to a threshold level after which the network effect will take over. India may not become a cashless economy in the foreseeable future, but it needs to reduce its unusually high dependence on cash to bring in much needed transparency and efficiency in the system.

All that came crashing down on November 8, when Prime Minister banned Rs 500 and 1,000 ($7.30-$14.60) banknotes, which accounted for 86 percent of currency in circulation.The action was intended to target wealthy tax evaders and end country's "shadow economy", but it has also exposed the dependency of poor farmers and small businesses on informal credit systems in a country where half the population has no access to formal banking. The stuck with Rs 700,000 ($10,144) of worthless cash. He can also only withdraw up to Rs 24,000 from his account every week, barely enough for his own personal needs given he also works as a farmer.That is bad news for farmers and traders who had come to depend on despite his high interest rates, given that bank branches are located far from the village, while the process to obtain loans is long and cumbersome.It may also hurt the economy, as the informal sector accounts for 20 percent of gross domestic product and 80 percent of employment. The country is due to report July-September GDP on Wednesday."Sowing of winter crops has been started and farmers badly need money. But I couldn't lend (to) them due to restrictions on withdrawal.

Borrowers Can't Pay Money Back

Some farmers and small businesses say India's informal credit system has ground to a virtual halt, despite government measures to steer more funds to them, including Rs 230 billion in crop loans.Not only are money lenders struggling to lend, they are also struggling to get paid.Prime Minister Market plan keeps investors guessing a month ahead of BudgetRoy, CEO of Vandana Foundation, a micro finance firm, said it has encountered difficulties in collecting payments from borrowers, which will have a knock-on effect on how much they can lend to others."How can we force people to pay back when they don't have money to buy food? How will they pay us?"The paralysis exposes the slow progress India has made in extending banking to wider segments of the population, a key initiative under.The government has taken steps, including announcing zero balance accounts for poor people, but growth of bank branches have been low as margins are slender for most lenders.In 2001, India had 5.3 bank branches per 100,000 people in rural areas. Today that stands at only 7.8 branches, according to Reserve Bank of India data.I-T Department to issue notice to those who bought car after November 8Even if farmers or small businesses are willing to go through the process of obtaining a bank loan, which includes filling out forms and several visits to the branch, bank officials say they are too focused now on getting cash out to devote time to small loans."We can't allocate manpower to scrutinize farm loan documents," said a manager in a rural branch of State Bank of India.Ordinance planned to impose penalty for holding junked notesFor some analysts, the breakdown in the informal credit sector points to a government that has failed to grasp how the cash economy impacts ordinary Indians.

It is this lack of understanding and not appreciating the importance of the cash economy in India on the part of the government that has landed the country in such an unwarranted situation today, an economist and director of public finance at India Ratings.PM market plan keeps investors guessing a month ahead of Union Budget. The Indian market has suffered significant damage during the second half of 2016. the US presidential election, Federal Reserve raising interest rates for the second time in a decade and demonetization were not shocks enough for the Indian markets, the government just gave another reason for the While the Sensex is down 0.06 percent in an year, it has lost 2.17 percent in the last six months.Government announced demonetization; the Sensex has lost 6 per cent. Today, the buzz over imposing long-term capital gains (LTCG) tax on trading in shares pulled the Nifty to a six-month low even as Finance Minister clarified that the government did not intend to do the same.Those who profit from financial markets must make a fair contribution to nation-building through taxes. For various reasons, the contribution of tax from those who make money on the markets has been low. To some extent, it may be due to illegal activities and fraud. To stop this, SEBI has to be extremely vigilant. The low contribution may also be due to the structure of our tax laws. Low or zero tax rates is given to certain types of financial income. I call upon you to think about the contribution of market participants to the exchequer. We should consider methods for increasing it in a fair, efficient and transparent way.The statement dented the gains market made during the last trading session and posed uncertainties on the tax front almost a month ahead of the February 1 Budget.Worries on return over tax front made investors jittery, leading them to book profits on a day marked by thin volumes in the market.Currently, returns from trading in listed stocks are not taxed if they are held above a period of one year.For stocks held and sold less than one year, the investors have to pay 15 per cent short term capital gains tax.Experts say investors fear that the short term capital gains tax rate could be raised to 20 per cent.

The government may also extend the limit of one year to two years for a stock sale to become eligible to be exempt from tax.This will result in investors holding stocks for more than two years to escape LTCG tax. This has made investors nervous since they will not be able to sell stocks for short periods and book profits.In case of losses, they will have to sell a particular stock and pay tax additionally for carrying out the transaction before the stipulated time limit.Investors are anxious over government statements and worried that tax changes in equities trading will force them to reallocate stocks in their portfolios.The intent to raise revenue from imposing tax on sale of stocks will also force investors to shift focus to other options such as mutual funds, thus resulting in lower volumes in the stock market.Clearly, the government could have avoided confusion prevailing over LTCG tax a month before the Budget and should have given direction to the demonetization-hit market by signaling possible tax cuts in general income tax levels and boost for the industry affected by the cash crunch.

The Beginning of the End Ofthe Parallel Economy In India

India runs on cash and that comes with its own set of problems. The most pronounced among them is the black money that the cash economy generates, which fuels the country’s shadow economy used to evade taxes and scrutiny.It is that shadow

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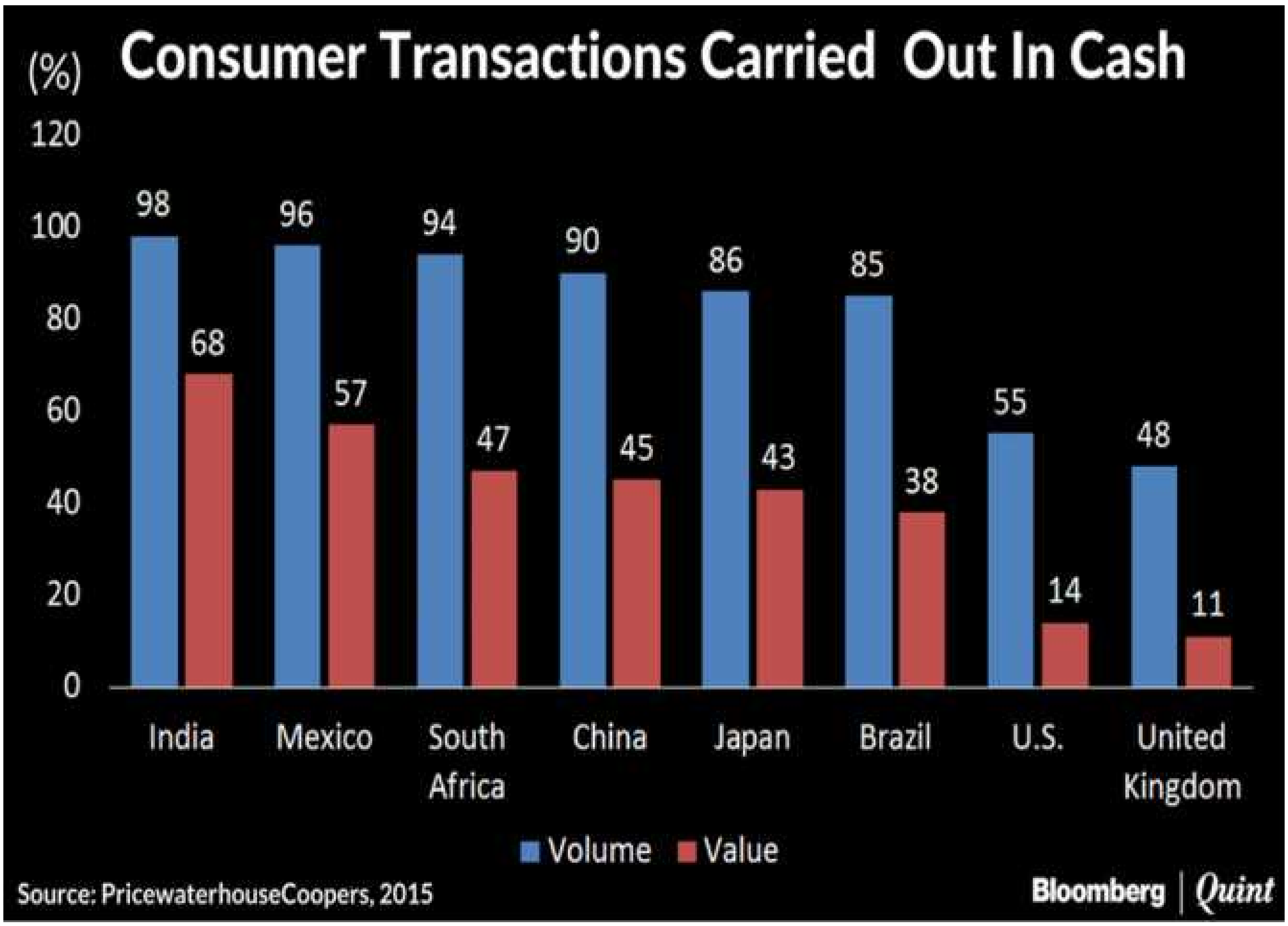
economy that the government is targeting through its decision to withdraw high denomination currency notes of Rs 500 and Rs 1000.Prime Minister while announcing the decision on Tuesday, made it clear that the government wants to clamp down on the black economy. Taking Rs 500 and Rs 1000 notes out of circulation is one step in a series of measures taken, said PM while highlighting that those with unaccounted money were given the opportunity to disclose these funds under the recently concluded Income Disclosure Scheme. Those who didn't will pay the price.The magnitude of cash in circulation is directly linked to the level of corruption. Inflation becomes worse through the deployment of cash earned in corrupt ways. The poor have to bear the brunt of this. It has a direct effect on the purchasing power of the poor and the middle class...High circulation of cash also strengthens the hawala trade which is directly connected to black money and illegal trade in weapons...To break the grip of corruption and black money, we have decided that the five hundred rupee and thousand rupee currency notes presently in use will no longer be legal tender from midnight tonight, that is 8th November 2016.

How Big Is India's Shadow Economy?
India has among the highest usage of cash across global economies. According to a 2015 report from PwC, 98 percent of all transactions by volume happen in cash. 68 percent of the total values of transactions are conducted in cash.



The most recent estimate of the shadow economy, that is a byproduct of this cash economy, came from consulting firm McKinsey & Company in 2013. Based on that analysis, India's shadow economy is as large as 26 percent of the country's gross domestic product.

This implies that almost one fourth of the Indian economy goes untaxed and unaccounted. Noting that India also has a very high proportion of cash-based transactions, McKinsey in its report said that "high cash usage perpetuates a shadow economy and hinders the evolution of a digital economy.""A prevalence of cash often allows an "informal" or "shadow" economy—one that is not taxed, monitored by government, or included in the GDP—to grow or dominate. International comparisons show a clear correlation between cash usage in the economy and the size of the shadow economy," said the report.

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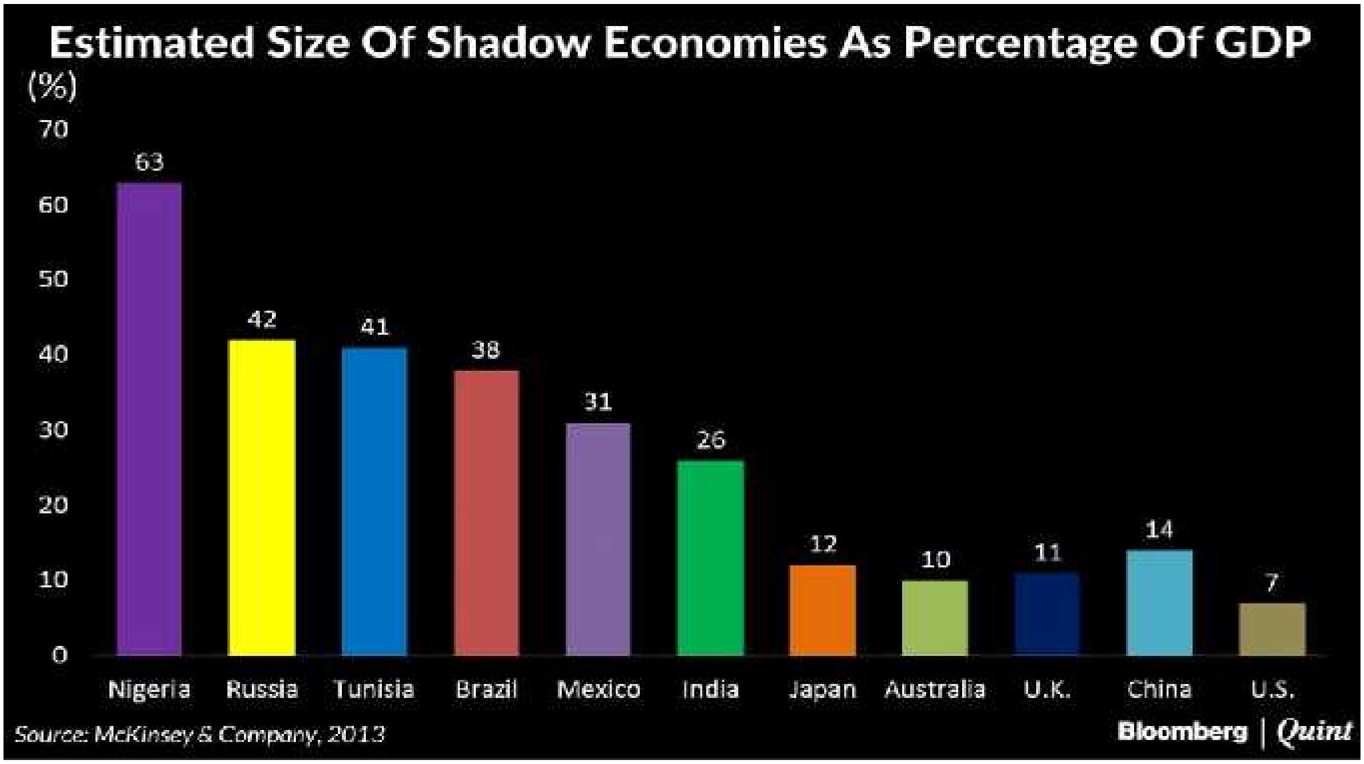

While the government's move to discontinue high denomination notes is expected to make it difficult for hoarders to amass large sums of wealth, the suddenness of the move is likely to impact businesses of all sizes in the short term, experts said.
Though clarity is unfolding on this, commodity transactions and general cash market transactions are likely to feel an immediate impact. Unorganized sector proceedings including small trade market activities will remain volatile in the short term," Lead Economist, Deloitte told BloombergQuaint.
"People are likely to only shop for necessities and hold back on other cash purchases till the situation improves or eases so there will be a big impact on the erstwhile informal economy which was running on cash. "Added that luxury commodities like gems and jewellery, automobiles and high-end branded products will see a drop in sales. Some of these products and sectors are places where black money was used.

Conclusion
The term less cash society and cashless transaction economy indicate the same thing of reducing cash transactions and settlement rather doing transaction digitally. Cashless transaction economy doesn't mean shortage of cash rather it 'indicates a culture of people setting transactions digitally. In a modern economy, money moves electronically. Hence the spared of digitally payment culture along with the expansion of infrastructure facilities is needed to achieve the goal. The Government withdrawer Rs. 500 and Rs. 1000 notes-two highest denominations in circulation. Main objectives were to fight counterfeit money and black money.

The demonetization drive was initially termed as a tool to tackle the problem of black money and fake currency, but since then, the narrative has clearly shifted base. Now it is a way to promote cashless transactions among citizens, which is really a good idea for the country. But the question is whether India is ready for it or how feasible it would be for the government to turn India into a cashless economy by 2020.India has a large amount of black money. According to recent estimates around 1/4th of Indian GDP is the shadow economy of India, which is like a parallel dimension slowly sucking out energy and matter from our dimension (economic ecosystem).The recently launched Unified Payments Interface by National Payments Corporation of India makes digital transactions as simple as sending a text message. So, will the exercise to exchange currency notes and the ongoing currency crunch be a decisive factor in making India a truly cashless economy. Shortage of cash has significantly increased the use of digital modes of payment, but the actual shift will only be visible after the cash crunch eases. It is possible that a section of people which has used electronic mode of payment for the first time due to the cash crunch will continue to transact through this medium, but there are still a number of hurdles in making India a cashless economy. First, a large part of the population is still outside the banking net and not in a position to reduce its dependence on cash. According to a 2015 report by PricewaterhouseCoopers, India's unbanked population was at 233 million. Even for people with access to banking, the ability to use their debit or credit card is limited because there are only about 1.46 million points of sale which accept payments through cards.Second, about 90% of the workforce, this produces nearly half of the output in the country, works in the unorganized sector. It will not be easy for the informal sector to become cashless, and this part of the economy is likely to be affected the most because of the ongoing currency swap.

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