

Cashless Economy

July 26, 2019

Source: *The Hindu*

Manifest Pedagogy

The transition to Digital or Cashless economy is the next major frontier in the economy. UPSC can target the area for a prelims or Mains question. The target of prelims question can be about the technicalities of the new technologies being used in the Digital transactions similar to the BHIM question earlier. When it comes to mains it will be a question based on the analytical aspects of the transition

In news

Nandan Nilekani panel submits its report on digital payments

Placing it in the syllabus

Indian Economy –

- Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment
- Inclusive growth and issues arising from it
- Government Budgeting

Static dimensions

- Definition of Cashless Economy
- Advantages of Cashless economy
- Challenges in moving to digital transactions
- Nandan Nilekani report on Move to Cashless economy – Some Major recommendations

Current dimensions

- Budgetary measures 2019

- Other measures taken by the government

Definition of cashless Economy

It is an economy in which the **traditional system of transaction is replaced by digital transactions**. It may include using of internet banking/ mobile banking, debit and credit cards, point of sales machines and digital wallets to transact money

Advantages of Cashless economy

Reduced theft: If an individual has digital transactions he/she does not need to carry cash with him or her everywhere which in turn reduces the chances of theft from wallet, reduces inconvenience due to carrying cash.

Easy to track black money: In the case of digital transactions it is easy to track the transaction as all records are there with the banks which result in more transparent transactions.

Tax compliance and Increased tax revenue to Government: The money transacted in digital form is to trace as a result it will increase the tax revenue for a government.

Improved market efficiency: The fast transactions(digital form) help in hassle free flow of money in the market and improves the efficiency of the market.

Reduction in printing cost and environment friendly: The reduction in the use of paper currency will help to minimise the cost of printing

Disadvantages of Cashless economy

Cyber attacks: Digital transactions are more vulnerable to cyber fraud, data theft and hackings. When it comes to India creating a secure and resilient payment interface is a prerequisite for going cashless.

Digital illiteracy: In India the digital literacy is less as compared to other nations and ensuring their inclusion is a challenge. Though included without the digital awareness, it may pave the way for fraud.

Lack of proper infrastructure: In cashless economy ensuring a secure digital transaction is major task But poor digital infrastructure, lack of internet accessibility and lack of proper digital payment infrastructure are hurdles to the cashless economy

Challenges in moving to digital transactions

- Security and Privacy concerns
- Sudden transformation from traditional method of transaction to cashless one is difficult as money is essential in day today transactions
- **Lack of trust** : For many, there is still a lack of trust for digital payments. There are those that don't yet feel safe using this as they don't trust the Internet and the perceived security risks.
- **Friction:** Cash is an immediate transfer of value. Digital payments, despite recent developments, still involve more steps than exchange of cash

Nadan Nilekani report on Move to Cashless economy – Some Major recommendations

The Reserve Bank of India has constituted earlier this year a five member panel to submit a comprehensive report holding consultations with all the major stakeholders **to strengthen the digital payments industry** which has seen a ten-fold growth in the last five years, following are the major recommendations of the panel;

- 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.

- In its recommendations the committee listed a **comprehensive set of regulatory interventions** that will be needed to achieve India's goal of a less-cash economy where the **focus would be pivoting the ecosystem from issuance to acceptance.**
- **The committee also put forward the initiatives such as removing transaction charges on digital payments made to government, inducing a competitive Merchant Discount Rates (MDR) pricing structure and easing KYC costs to banks**
- The report submitted by the panel has made **policy recommendations to all major regulators such as RBI, SEBI, IRDAI and DoT** with the objective to reduce cash based payments.
- Additionally, the committee has **put the onus on government to be at the forefront of the transition by taking steps such as removing transaction charges on all digital payments** made by customers to the government.
- Further the committee has also asked **RBI to set an interchange rate for transaction between customers and leave the MDR on competitive market pricing** which would reduce the transaction cost for customers.
- **Special impetus on digitising mass volume channels** such as recurring bill payments, toll and ticket payments at public facilities and digital onboarding of khirana store merchants has also been recommended by the panel in order to achieve the targeted growth.
- In its report the panel has also asked the government **to set up special risk mitigation and complaint registering digital portals.**
- A special **data monitoring mechanism** to garner granular district level data on consumer trends and payment behaviour has also been suggested by the committee for targeted intervention to improve the existing infrastructure

Budgetary measures 2019 -Merchant discount rate reduction or elimination, Tax Deduction at Source measures – on Bank withdrawals

- The Budget proposes TDS of 2% on cash withdrawal exceeding ₹1 crore in a year from a bank account to promote less cash economy.
- No charges or MDR on specified digital mode of payments. These modes are to be compulsorily provided by large businesses

Other measures taken by the government

Demonetisation

Just after the demonetisation the Cash to Gdp ratio reduced to 9%, in November 2016, the currency in circulation, or the total amount of cash in the financial system, was at ₹17.98 trillion. This fell to a low of ₹8.98 trillion as of 6 January 2017, in the aftermath of the note ban.

As of March 2019 now it is at 11%. The digital cash transactions have increased by 3 times, as per the Assocham-PWC India study Digital payments in India will be more than double to \$135.2 billion in 2023 from \$64.8 billion this year

