

## Factsheet: Leveraging Technology and More: Case for a less Cash Economy

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### Overview<sup>1</sup>

- Value of banknotes and coins in circulation as a percentage of GDP in India (12.04%) is very high as compared to other emerging markets, like Brazil (3.93%), Mexico (5.32%) and South Africa (3.72%).
- Estimated cost of printing currency in India: Rs. 32 billion
- As per the annual RBI report 2013-14, the amount of currency in circulation stood at Rs.12.83 trillion with a compounded annual growth rate of 10% over the past two years, only about 5% of this amount is with banks.
- Government subsidies alone constitute for estimated cash transactions worth Rs. 2.93 trillion. If these payments are effected electronically, they may translate into over four billion electronic transactions in a year.

Table 1: Breakdown of Transactions by Type

Payment Type	2007	2008	2009	2010	2011	2012
Card Payment Transactions	0.32%	0.38%	0.42%	0.45%	0.51%	0.60%
Electronic Direct/ACH Transactions	0.09%	0.11%	0.13%	0.18%	0.24%	0.32%
Cash Transactions	99.32%	99.25%	99.19%	99.12%	99.01%	98.84%
Other Paper Payment Types (Checks, DDs)	0.27%	0.26%	0.26%	0.25%	0.24%	0.24%

Source: Euromonitor Passport 2013

Proportion of cash transactions in India has remained constant for the last five years. The PMJDY has been successful in opening 147.1 million bank accounts (as of 31st March 2015), HOWEVER 58% of these accounts remain dormant.

### Making a Case for Less Cash

**Promoting Access:** Electronic payment instruments allow the unbanked to start building a transaction history.

**Transparency:** Migrating from cash to electronic payment systems can plug leakages in government programs, strangulate the grey economy, prevent money laundering and increase tax compliance as digital transactions leave a strong data trail.

**Convenience:** For individuals, digital systems can reduce hassles associated with traditional banking such as long queues, paperwork, help manage liquidity and mitigate risk associated with cash.

### Challenges

Although e-money has been a very dynamic area in the field of retail payments in recent times, its development raises policy issues for central banks as regards payment system oversight, the

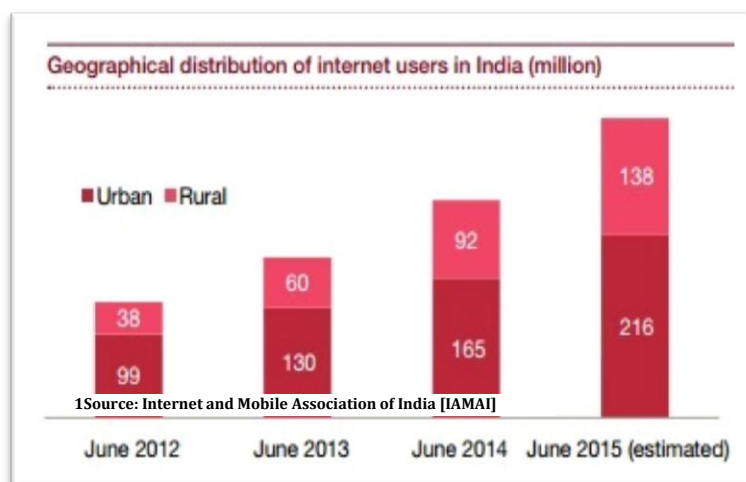
<sup>1</sup> Reserve Bank of India – “Payment Systems in India Vision Document (2012-15)”

possible implications for central banks' revenues and the implementation of monetary policy. Likewise, the future of digital payments in India depends on the convergence and interoperability of business models of banks, telecom operators and other stakeholders.

**“Swish”:** Sweden, which is very close to becoming the first cashless society in the world, has had a huge uptake of a mobile application - ‘Swish’ which is the result of a national collaboration between Swedish and Danish banks. The application allows for real-time transactions, with users able to transfer money from their bank accounts to anyone else with a bank account, whether they’re at a restaurant, in a cab, or at the flea market.

While the growth of electronic payment transactions has been very impressive in recent years, it has failed to reach the unbanked and under-banked population of the country. Key challenges such as lack of adequate infrastructure, financial awareness, and technology adoption are impeding efforts towards digitisation. Though India has a fiercely competitive telecommunications market, possesses a well-developed financial system, and is a widely acknowledged technology exporter, fewer than 2% of Indians have used a mobile phone to receive a payment, compared to over 60% of Kenyans and 11% of Nigerians. So far, the RBI has consciously chosen a bank-led model over a telecoms-led one to achieve its financial inclusion goals. Telecoms firms have only recently been allowed to enter the payments space in India, but are limited only to partnerships with banks. From the consumer’s perspective, the biggest behavioural challenge towards a less-cash society is that dependency on cash is a deep-rooted habit. The following table illustrates factors that influence the choice of transaction mediums by individuals, financial institutions and regulatory bodies.

	Cash Transactions	Cashless Transactions
<b>Motivates</b>	Behavioural- dependency on cash	Quick and Easy
	Control over Spending	Paperless
	Habit and Ease	Secured and Safe
	Anonymity, Familiarity	Improved monitoring and transparency (Govt.)
<b>Demotivates</b>	High Cost (printing and circulation)	Technology Adoption
	Money laundering	Lack of Infrastructure
	Inconvenient	Lack of Policy and Regulation



For non-cash transactions to achieve scale and succeed, on the supply side, it is important to bridge India’s ‘digital divide’, with respect to mobile internet and high-speed broadband connectivity. With a CAGR of 34% since 2009, the e-commerce sector in India is a fine example of the success of the internet, and digital payment modes in India. It has been backed by a sharp rise in internet users across urban and rural India in the last four years, as indicated in the graph. While the advantages of non-cash payments may be evident, to proliferate, they will have to be easy to use, readily available and accepted, provide the same degree of comfort as cash, and not impose any undue

financial burden on merchants and users. Moreover, they will need to offer an appropriate level of security, promote repeated usage with a zero-fail rate. Along with supply-side interventions, a marked change in the behavioural patterns of both customers and merchants will be required for faster adoption of non-cash payment modes in India.