

DEMONETISATION- REDUCTION OF INTENSITY OF CASH-BASED TRANSACTIONS IN INDIA

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ABSTRACT

India is predominantly a cash-intensive economy. About 87% of the value of all the transactions in the country took place in cash in 2012. Although there are many cashless payment options available for the people, the value of cashless transactions in the country is relatively less. The post-demonetisation cash crunch forced people to go for cashless payment options. Government and the RBI are continuously exploring cashless payments across the country. The accelerated developments in internet technology have brought lot of changes in the banking and financial sector in the country and cashless payment systems are steadily grabbing their share and attention in the market. This paper provides a broad overview of new payment systems in the country and throws light on how these emerging payment options will reduce the cash transactions across the country.

Keywords: Demonetisation, Cash Intensive Economy, and Cashless Payments.

INTRODUCTION:

The recent demonetisation in the country has impacted both the society and economy. Although there were few negative impacts on the daily life of common man in the initial period, slowly the problems were tackled in the best possible manner. One of the very important advantages of demonetisation in the country is the acceleration of cashless payments. India being a cash-intensive economy was trying hard to increase the cashless transactions. Both government and the banks are putting efforts to improve the cashless payments by empowering the required structure and technology. The severe cash crunch in the economy after demonetisation has forced people to use the available digital payment options. The cashless transactions in the country surged to high level after demonetisation. There are many new technologies being used for making payment systems convenient and cost effective. India will witness much growth in the payment systems market in the coming years due to its competitive telecommunication sector and well developed financial institutions.

The present paper is an attempt to study the new cashless payment systems in the country and throws light on how these emerging payment options will reduce the cash transactions across the country. The first section is about introduction. Review of literature is presented in section two. Position of cash transactions in India is discussed in section three. India's position in cashless payments is highlighted in section four. Section five discusses emerging payment systems that will help in reducing the cash transactions in the country. Last section concludes the article.

OBJECTIVES OF THE STUDY:

- To know the position of cash transactions and cashless payments in India.
- To highlight emerging payment systems.

RESEARCH METHODOLOGY:

The study has been conducted to understand the level of cash transactions in the country and also to highlight different payment systems. The article totally depends on the secondary sources of data. The information has been collected from various sources including journal articles, books, news paper and online articles.

LITERATURE REVIEW:

Different studies have been conducted in the area of payments systems. Research scholars, academicians, experts in the field of banking and finance and many government and private organizations have carried out the studies on various aspects of payment systems and their effectiveness. Havinga et al. (1996) have grouped electronic payment systems into three broad classes: traditional money transactions, digital currency and credit debit payments. They have also discussed a number of requirements like security, acceptability, convenience, cost, anonymity, control, traceability and control of encryption methods of payment systems.

Das & Agarwal (2010) studied the reasons for poor usage of payment cards and the costs involved in India for the cashless payments. The paper highlights that the rationalization in costs helps both the banks and card companies to gain profit due to increase in user base and use of payment systems.

Roy and Sinha, (2014) studied the customers' acceptance of electronic payments by bank customers in India and conclude that the customers are widely adopting the new payments systems.

World Payment Report (2014) revealed that Asian countries are quickly accepting the digital payment systems compared to that of Middle East, African and Central European nations. The adoption rate in Asian countries is 33.9 % where as in Middle East and African countries it is 23.8%.

Mazotta et al. (2014) gives detailed information about Indian scenario with respect to cash and cashless transaction in the country. The study also provides comparative data of India with other developing nations in terms of cashless payments.

Shah et al. (2015) discusses the Indian ecosystem for the development of cashless payments in a very detailed manner. The study gives lot of important information related to the India's payments system

and the future of payments markets in the country. It also highlighted the growth prospects in the country which can improve the digital payments in the coming years.

Raja et al. (2015) discusses the evolution and growth of electronic payment technologies. They have focused on different methods of e-payments and also analysed the challenges of such payment systems. The paper also discussed various solutions to the problems.

Mukhopadhyay (2016) analysed the key steps for gradual migration of Indian economy into cashless. The paper estimated the amount of cashless transactions prevalent in India, and also identifies the required improvements. The study looks at the cashless payments from dual perspective; one is from the point of instruments and the other at micro units. More importantly the paper also presents a theoretical model of payment decisions by consumers and sellers.

Position of Cash Transactions in India:

India is predominantly a cash-intensive economy. The payments system in India is in its development phase as cash is still the king in transactions. With rapid growth and modernization of the economy, India is going to embrace the new payment systems in the coming years. The cash intensity in India is very high compared to other developing countries. The value of notes and coins in circulation as a percentage of GDP for 2010 was 12.04% in India whereas it was just 3.93% in Brazil, 5.32% in Mexico and 3.72% in South Africa. The value of non-cash payment transactions compared to cash transactions is very less but there is steady increase in the non-cash payments in the country.

Consumer Payment Statistics by Value (% of Total)

Payment Type	2007	2008	2009	2010	2011	2012
Card Payment Transactions (Excluding Commercial)	2.8	3.1	2.9	2.8	3.5	4.1
Electronic Medium	2.6	3.0	3.8	4.5	5.6	6.8
Other Paper Transactions (Checks, Demand Drafts)	4.1	3.9	3.6	3.2	2.9	2.5
Cash Transactions	90.6	90.0	89.7	89.5	87.9	86.6

Source: Euromonitor Passport 2013

Consumer Payment Statistics by Volume (%)

Payment Type	2007	2008	2009	2010	2011	2012
Card Payment	0.32	0.38	0.42	0.45	0.51	0.60
Electronic Medium	0.09	0.11	0.13	0.18	0.24	0.32
Other Paper Transactions	0.27	0.26	0.25	0.25	0.24	0.24
Cash Transactions	99.30	99.20	99.10	99.10	99.00	98.80

Source: Euromonitor Passport 2013

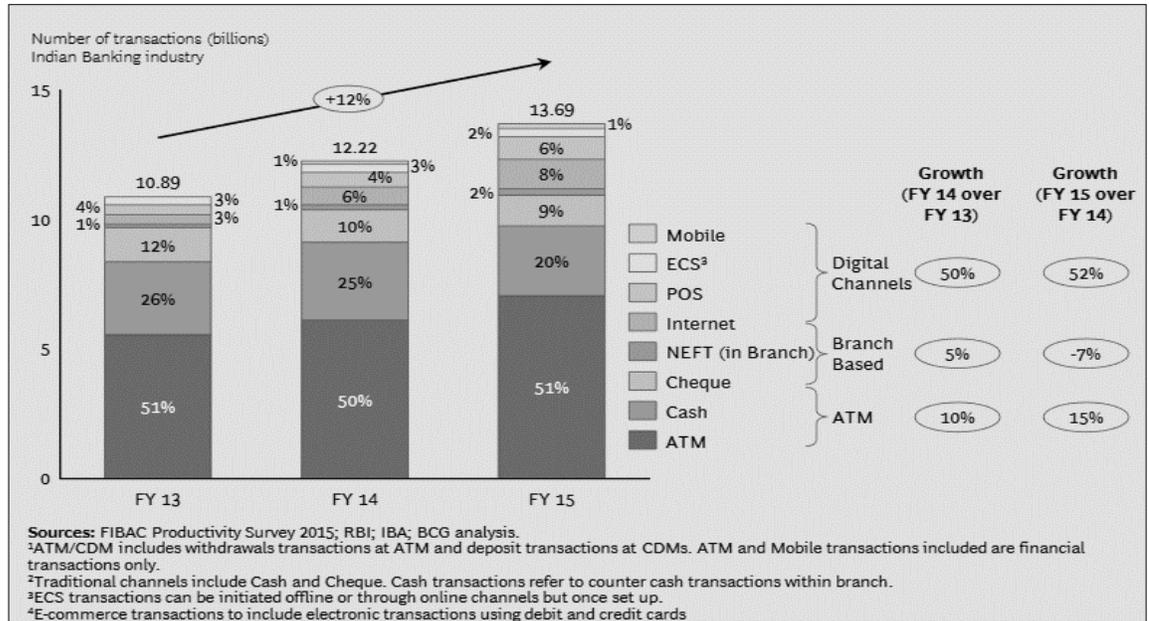
The amount of money held in bills and coins (M0) relative to the amount held in demand deposit and savings accounts (M2) is a good indicator for comparing the cash intensity. M0 as a percentage of M2 is over 50% for India whereas it is just 24% in Egypt, 9% in Mexico and South Africa and 5% in China (Mazotta, et.al 2014). The number of currency notes in circulation is also far higher than in other large economies. India had 76.47 billion currency notes in circulation in 2012-13 compared with 34.5 billion in the US.

Position of Cashless Payments in India:

India has competitive telecommunication market, well developed financial markets and it is a leading exporter of technology services. All these factors support the growth of cashless payments. But India has not gained much in terms of cashless payments compared to its peers. Non-cash payments in India are dominated by card payments, electronic direct transactions and non-cash paper transactions. Cards are the most used cashless payment option available in the country. The non-cash payments through modes of cheques, demand drafts, net banking and cards currently account for 22% of all consumer payments in India and it is projected to increase to 59% by 2025.

Digital transactions have shown steady growth of 50% year on year over the last few years in India. And ATM transactions grew at 15% and branch-based transactions have reduced by 7% in FY 15 compared to FY14 (Alpesh, et.al).

Growth in Digital Transactions in India



The digital transactions are continuously rising due to improvement in the smart phone penetration, good internet connectivity and support from the central bank towards digitization and they are going to change the payment scenario in the country.

New Cashless Payment Systems:

Increasing number of mobile phones, improved internet network, RBI's support for digital payments has given momentum for new payment systems in the country. There are many innovative payment systems which are slowly grabbing the market. Demonetisation has surely given a push for cashless transactions in the country. Apart from the old cashless payment systems like cheques, demand drafts, debit cards, credit cards, gift cards and internet banking there are many more new age cashless payment systems available in the country and across the world. Internet has given enormous opportunities for cashless payments. And further developments in the technology have resulted in innovative payment systems which use big data, near field communication and artificial intelligence for making digital payments more easy and cost effective. Some of such new cashless payment systems that are going to change the way of payments in the future are discussed in this section.

Mobile Wallets:

A mobile wallet is a way to carry credit card or debit card information in a digital form on a mobile device. Instead of using physical plastic card to make purchases, one can pay with smart phone, tablet, or smart watch. Mobile wallets have grabbed the market very quickly after the demonetisation. Growth in mobile phones and improvement in internet technology is going to be more advantageous for the mobile wallet players in the country. 29% of all online transactions globally are done on mobile. By 2019 the Indian mobile wallet market will reach Rs 1,200 crore. Indian mobile wallet market is projected to grow at 30 annually till 2019 (Kumar, 2015).

Payment Banks

These are new model of banks which can accept restricted deposit but cannot issue loans and credit cards. Both current account and savings accounts can be operated by such banks. Payments banks can issue

services like ATM cards, debit cards, net-banking and mobile-banking. Payment banks are going to facilitate the digital transformation in the country at a faster rate due to the convenience of operations and services.

Contact Less Payment:

The use of near field communication (NFC) and QR code technology can make mobile payments convenient. These new technologies are going to be much used in the coming days which are going to increase the cashless payments in the country. There are many players in the market using this technology for cashless payments like Paytm, BHIM app, MobiKwik etc.

Block Chain Technology:

Block chain technology allows the parties involved in a transaction to share copy of a common ledger. This technology can be used to create digital currency like bitcoin and helps in making payments seamless and secure globally. Block chain technology has been used by many big banks and financial institutions worldwide to make the global payments. To cite an example, Ripple, a San Francisco based fintech company uses blockchain technology for payment transactions.

Voice-based Payments:

The use of voice based payments by banks and payment service providers will offer great solutions which enable customers to login and pay using their voice instead of entering a pin or password. This service is of great help to illiterate and aged people. Tonetag, a Bengaluru based company is using this technology for payments.

Internet of Things (IoT):

The next generation may also likely to use this technology for payments as well as many more things. Automation and connectivity of gadgets and devices will be very easy through internet of things and is going to help customers in making payments from anywhere.

CONCLUSION:

India having a secured banking system, competitive telecommunication sector and well developed financial market will be witnessing new payment systems which will change the way of transactions in the coming days. The recent demonetisation has played vital role in pushing the cashless payments in the country. The availability of different cashless payment options have led to increase in the cashless payments in the country. But with respect to use of cashless payment options India is still behind, but catching fast with its peers. The government and the regulator are showing interest in improvising the digital payment systems. New-age small finance banks and payments banks are expected to give further push to digital currency. Rapid technological developments leading to innovative payment systems and fast adoption of these systems are going to reduce the cash transactions in the future.

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