

## CAN INDIA AFFORD TO BE A CASHLESS ECONOMY? – A DETAIL STUDY

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### ABSTRACT

In the world glance as per technology changes suitable changes should be adopted by the economy. And among all the changes in economy lead to some drastic changes in to the transaction. Now days in any transaction Plastic money becomes inevitable part of the transaction. And with it life becomes more easy and development would take better place. Relating to Indian scenario how the plastic money took place in the banking world would be focus by the researcher over here. And along with the plastic money it becomes possible that control the money laundry and effective utilization of financial system would becomes possible which would also helpful for tax legislation.

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## Introduction

For Sumit Raina, 43, it has been a long way from cash to card. When he joined his first job in 1990, almost all his expenses were in cash. Credit and debit cards were not very popular and were still very niche products. Possessing these did not help much as only a few outlets – from provision stores to milk to utilities –willingly accepted card payments. Now the scene has drastically changed.

Now it has been more than two decades and Raina- now a Mumbai based businessman rarely make payments in cash and cannot survive without his cards. He at present owns one debit and two credit cards and with changing times he is enjoying the use of these cards.

Throughout the day – beginning from purchasing daily items in the morning to buying vegetables in the night –he utilizes his credit cards. Sumit rarely buys any expensive items between the 1<sup>st</sup> and 11<sup>th</sup> of the month. "I want to enjoy the full month's credit period," he says. And he never revolves his credit, settling his credit card bill at the end of every cycle. "If I cannot pay I do not buy. Simple," he says.

Of course, the Indian economy at present is slow. Sentiments of consumers are low and credit off take has collapsed. Even though, debit, credit and pre-paid cards — are posting robust growth. During 2012-13, there has been an increase in the number of cards issued as compared to 2007-08. From a small number in 2008(150 million), today the electronic cards are touching the mark of 500 million.

The rise in the volume and value of transaction is really magnificent. Credit card spends (in value terms) have reached to Rs 1.23 lakh crore which is more than the double as compared to 2008 and debit card spends (in value) have grown to seventy four thousand four hundred crore rupees during 2012-13 as compared to 2007-08. In this five years, the processing terminals numbers too have been doubled to 9.5 lakhs. Uttam Naik, head of Visa Group for South Asia regions says that he does not feel that there is slowdown as his business is doing well and he feels motivated.

## Cashless Economy and the Impact

What Naik doesn't let you know is that this hearty development in electronic cards isn't an impression of livened up utilization? Rather, it is more an impression of a greater movement - of India gradually moving from **money to a cashless economy**. Today there are near 350 million check cards and 19 million Visas in India. Very nearly all Indians with a reserve funds account have a credit card.

Paper cash will stop to exist. Each transaction will be carried out electronically on cheap card readers.. The engineering is now set up in numerous countries. There are expanding number of tasks that are making cash outdated. In Japan, virtual installment is blasting; MOBILE SUICA was presented in January 2006 by NTT Docomo and East Japan Railway. It is a cell telephone based savvy card that could be utilized for purchasing rail tickets or for access to buildings. In France, societe Generale, in organization with Visa Europe and Gemalto, steered an undertaking from July 2007, utilizing a Visa Premier "contactless" bank card to make little buys; the entire transaction takes short of what one second. In London, The Evening Standard daily paper is sold at uniquely prepared booths that oblige contact between a card and a scanner. A cashless economy would have a significant, advantageous impact on the Indian economy by legitimizing all transactions and deleting the most well-known boulevards for tax avoidance.

India's riches is horribly understated. A stunning measure of cash makes a trip to and from nation through endless imperceptible systems. This money is not, one or the other recorded, exhausted or subject to any trade controls. One of my friend's recent visit to Dubai where he met one of the top gold wholesalers on the popular Dubai Gold Souk. The volume of his underground money transactions-and the portion that originated on the Indian subcontinents was stunning. I heard the same story from an unmistakable family working in the jewel business in Belgium. Such misrepresentation can permit tax evasion and the financing of fear. One of these concealed money courses the aged Hawala system still works as a honor code that goes over to the times of Arab Silk Road merchants. Interpol states that hawala gives an investigation free settlement channel. Hawala systems are presently apparently the fundamental way that Al-Qaeda exchanges stores. A cashless economy would kill this.

Killing cash would likewise bring India's colossal informal economy into the open. More or less, 92% of our populace works in the casual area with its size assessed to be anyplace somewhere around 70 and 150 percent of the current economy. At the point when cashless will be there then everybody's transactions, from the paanwallah's deals in Chandani Chowk to billion dollar arrangements, would be noted. India's economy would blast. While the cashless economy would make fraud impossible.

A famous businessman has said, 'India survives today because its entrepreneurs have perfected the art of cheating on their taxes'. Many businessmen who run restaurants adapt a practice of two billing system. One bill they make for customers and another bill for tax payment. For example, in a day if they are doing business of one lakh, in the night when the restaurant is closed they generate bills for lesser amount say for ten thousand only for tax evasion. Likewise in every sector, frauds are being done.

Like in infrastructure sector, it's common that builders take money from the customers by showing them some already built flats and then they utilize that money in opening five star hotels and that housing project is never completed and the customers never get their dream houses.

Many people import luxury cars and they sell these cars by taking 90% of the price in cash and 10% by check and pay tax on the amount paid by tax. In India, forms and shades of corruption are endless. All these will vanish if cashless economy is there.

Stealing of cash also would not become possible. Bank robberies may stop to happen. Survival of beggars would also be very difficult. Assaults on shop-keepers, taxi drivers and teller could stop. Urban road might become safer. Insurance charges and security prices may perhaps drop. Property worth would likely increase. An alteration from funds to recorded digital funds may come with a stream of formerly outstanding income tax revenues in billion of rupees. Consequently, tax rates could be decreased or national debt reduced.

The truth of the matter is, money is nameless — and people love secrecy. It's not that we oblige every time; however a free public opinion requests that the alternative is there. Whether you're paying for something humiliating, like to a whore, or secretly piping cash to a philanthropy, its decent to have the choice of paying with a money that can't be straightforwardly followed once

more to you. The profits of an absolutely advanced economy are enormous. All things being equal, managing physical money is unbelievably troublesome. You need money registers (which aren't shoddy); you need to continually screen for robbery; you require a protected to keep the cash in the middle of accumulations, and accumulations themselves are unreasonable as well. An entire industry rotates around the safe taking care of, transportation, and tallying of coins and bills. With computerized cash, those troubles vanish. With Paypal, you can set up an online business in minutes. With Square, your iphone or Android cell phone turns into a purpose of offering sales.

Reserve Bank of India Deputy Governor HR Khan, talking at a meeting, mentioned that the circulation of a large sum of cash in the market results in many issues, including corruption. Recommended treatment was to go into a system where payments were less in cash. As well as reducing corruption, this kind of move will resolve transmission problems of policy in addition to cash management problems in the banking program. In a recently concluded research performed by the India Development Foundation (IDF), it was claimed that, in addition to these, the shift towards a less cash-utilizing market will result in an improvement in financial inclusion, more electronic document-keeping of trades, a decrease in the prices of transactions and support greater increase.

In accordance with the Reserve Bank of India (RBI), the provisional estimate of the sum of money in circulation (as of June 2010) stands at Rs 8,64,333 crore, out of which just 5 % of the money is with the banking -- indicating that nearly the whole quantity of money is transacted every day. Over the period April 2006 -June 2010, money has shown an annual growth rate of 17 %. It's estimated that for 2009-10, the RBI incurred a yearly price of Rs 2,800 crore to only print the money notes. This can be 0.4 % of the total money in circulation. The demand to go towards cash-less payment market is possibly more in India due to the price of processing and printing and distributing funds. This price will not include the price of storage, transport, safety, detection of counterfeits and so on. Print price, if we were to include the expense of storage and keeping these monies through ATMs the expense of print and disbursing money comes to about Rs 70 per individual annually. As of January 2010 approximations, there are approximately 60,000 ATMs in the country. It charges around Rs 7 lakh to install the device and an equal sum to maintain it for twelve months. Given that we intend to include 10,000 ATMs per year, the

overall price of printing and distributing money (through ATMs alone) amounts to Rs 8,400 crore. To put it differently, the price of printing and distributing funds makes up around 0.2 % of India's gross domestic product. Alternately place, a reasonable increase of cash-less transactions by five percent a year will conserve over Rs 500 crore per annum. Thus, there exists an immediate advantage (when it comes to cost savings) of going towards cash-less transactions in India. Nevertheless, it's the indirect advantages which are possibly considerably more significant for India, particularly given the country's goal of inclusive increase.

Recording monetary transactions has many edges. First, it assists the government in its attempt to collect proper tax revenues; second, it can efficiently find, and assist curtail, prohibited trades; third, it's going to give us a better approximation and comprehension of the enormous unorganized sector in India; and last, but not least, it's going to help stop up the "leakages" in different government programmes. The Justice Wadhwa Committee Report on the community supply system advocated using computerized programs that can maintain an archive of all PDS transactions.

Strategies should be set in spot to transfer the market from one that utilizes primarily cash to one that utilizes cash-less devices. Nevertheless, this type of substitution would need a joint attempt to create a community of critical mass that copes with cashless trade. The network is significant since there exists a switching price for personal consumers to switch from cash. To put it simply, consumers will find it more appealing change to cash-less transactions if consumers are utilizing them. It is necessary, consequently, that plan initiatives are in place to create a critical mass of the network (of non-money customers). This mass can vary greatly across sectors or across geographies. This can be developed, it becomes rewarding for people to leave the present network of cash trades and join the community affecting cashless. Assembling vital network needs a coordinated attempt, which is where the authorities and the RBI must get together.

Though the notion of Cashless Market, where, in the position of Print money, other manners of payment viz cheques, cell telephone repayments are embraced for Monetary Trades in the market, is however to get recognition in India. Nevertheless, we can definitely tell that non-money transactions are gaining recognition here as the times go by.

## The Context

Within their post named 'Hiding in the Shadows - The Increase of the Under-Ground Economy' by reputed economics professor Friedrich Schneider (Johannes Kepler University, Austria) & Dominik Enste, released during March 2002, , gives a comprehensive report of genesis, modus operandi and effect of 'Shadow Economy' over the market. As per them, the casual or parallel market - the shadow economy - contains not only prohibited actions but also revenue in the creation of legal products and services, either from monetary or barter trades. Thus, includes if these were documented to the tax authorities all economic actions that would normally be taxable.

The view of the learned professor would be to be read with the old saying that "Black economy is cash economy". Non traceability, the most important characteristic of Printed Money which empowers an individual to use it without leaving any path, is producing the Printed money the most perfect medium for the Tainted, Terrorists and other gamers in the Shadow Economy for trade & storage of Worth - two of the main features of Money. Needless to say that tax-evasion and co-existence of Counterfeit Monies are banes. It's numerous other drawbacks like bother larceny proneness and its purpose in the spread of Prostitution and HIV, as many specialists on the topic highlights to carry.

In Cashless market, mostly all trade will be completed through accounted cash banking, through devices like Bank Cards, Charge Cards, Cellular Telephone Banking etc ,Internet Banking. Multiple Platforms for trade would accessible. The largest edge of Cashless Market is that all monetary Trades can be tracked, which prima facie can dramatically reduce terrorist and corruption financing, besides preventing the Price incurred in the Printing/ Minting of Monies/ Coins.

Commerce mispricing is an approach adopted particularly by Business Organizations (finally by high-net-worth people) to transfer cash from the country for the intent of evading Taxation, routing through Business Organizations registered in Tax havens, utilizing deceptive commercial invoices.

Based on this report, Shri P. Sainath, well reputed journalist wrote an article in the Hindu daily, titled “Illegal financial flows: the great drain robbery” with the following analysis:

- India is losing nearly Rs.240 crore every 24 hours, on average, in illegal financial flows out of the country
- In just five years from 2004-08 alone, the country lost roughly Rs.4.3 lakh crore to such outflows. That is — nearly two and a half times the value of the 2G telecom scam now exercising Parliament and the media. The Comptroller and Auditor General of India (CAG) pegs the 2G scam at almost Rs.1.8 lakh crore.
- Dev Kar, told The Hindu that “India is losing capital at an average rate of \$19.3 billion per annum. India can ill afford to ignore such a loss of capital.”
- And even the total \$462 billion, says GFI Director Raymond W. Baker in a letter prefacing the report, is “a conservative estimate. It does not include smuggling, certain forms of trade mispricing and gaps in available statistics.” Factor these in, and “it is entirely reasonable to estimate that more than a half-trillion dollars have drained from India since independence.”
- That does seem an obvious outcome in a country where according to the National Commission for Enterprises in the Unorganised Sector (NCEUS), 836 million human beings live spending Rs.20 a day or less.
- The GFI study makes two vital points amongst others that will surely stoke ongoing debates in the country. One: the drain bloated massively in the era of economic liberalisation and reforms starting with 1991. Two: “High net-worth individuals and private companies were found to be the primary drivers of illicit flows out of India's private sector.” Conversely, “India's underground economy is also a significant driver of illicit financial flows.”
- Only about 28 per cent of illicit assets of India's underground economy are held domestically. It also strengthens arguments that “the desire to amass wealth without



attracting government attention is one of the primary motivations behind the cross-border transfer of illicit capital.”

The above are only illicit outward flows. The total size of Shadow economy in India in such a case will be unimaginably high.

Education is a fundamental human right and a major driver of human and economic development. It strengthens personal integrity and shapes the societies in which we live. Since education typically comprises 20-30 per cent of a country’s budget, it is critically prone to corruption, from national education ministries to local schools and universities.

The cost of corruption is high. Stolen resources from education budgets mean overcrowded classrooms and crumbling schools, or no schools at all. Books and supplies are sometimes sold instead of being given out freely. Schools and universities also ‘sell’ school places or charge unauthorised fees, forcing students (usually girls) to drop out. Teachers and lecturers are appointed through family connections, without qualifications. Grades can be bought, while teachers force students to pay for tuition outside of class. In higher education, undue government and private sector influence can skew research agendas.

The end result is limited access to – and poor quality of – education, and a social acceptance of corruption through a corrupted education system. The solution? Again the solution is cashless system. Corruption can be curbed. It will lead to correct education. The education will lead to entrepreneurship and employment and this will lead to economic development. So, this 4E model is directly linked with the corruption less society and this can be only brought if cashless system

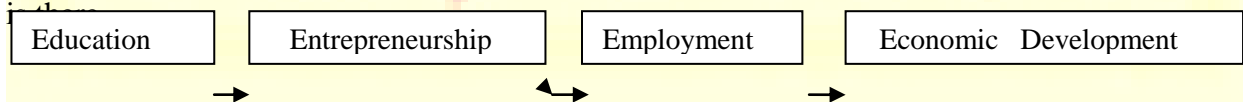


Fig 1: 4E model

**Initiatives by the Govt. which can potentially bring in some change:**

Marie Antoinette was responsible of believing only a little what appeared possible, when she indicated the peasants be fed cake, *instead of bread*. In the twentieth century peasants began have living standards much superior to those of their queen in the 1700s. In India, also, it's time to think a bit appears clearly possible, in regards to bank accounts and money transfers linked to the unique id number, Aadhaar. Let's get rid of money for payments. And let us guillotine only cash, and let foolhardy souls be, who propose such extreme measures.

What the exceptional identity scheme puts in area is the keystone for a cashless market. Picture the next scenario. Everyone has a distinctive identity number, Aadhaar and bank-account associated with Aadhaar. The Aadhaar data-base also stores biometric information for each person. An easy fingerprint reader attached to your cellular phone, or when the cell phone camera is good-enough, software on the telephone itself, can check an individual's id by querying the Aadhaar records data-base.

What this means is that with an Aadhaar linked bank-account, a person can make payments with no debit card. As opposed to swiping a card, what he'd have to do would be to press against his thumb against some scanner/cam attached to the equal of a card-swipe device held at a store. His account would be debited for the sum he authorizes and an obvious digital path would be created as to whose account the cash was transferred to, the range for coercion and fraud would be minimized at the same time.

Cash is an important source of insecurity. It's a good idea to abandon it in a bank-account and invest it. Taking cash near carries with it the threat of assault and robbery. Retail payments should achievable with the swipe of a hand. Substantial payments can be made by electronic transport on a cellular net-access system, generally, the accountholder's own cell phone or an ATM using an banking correspondent.

For cash-less transaction to be omnipresent, card swipe devices need to be omnipresent. Even vegetable sellers and collectors of modest political donations should have their own devices. Pure dream?

The swipe machines are one type of hardware required. Connectivity to the Aadhaar database and the core banking solution of the account-holder's bank is another, vital part of the puzzle. Good, affordable data connectivity is what this calls for. The fibre optic cables capable of carrying gazillion bits of data that the public sector Bharat Broadband Corporation is laying to 2,50,000 panchayats across the country offer the backbone of this connectivity. Wireless broadband on 3G and 4G networks will connect consumers - individuals and merchant premises - with the backbone.

Business like Visa, MasterCard or RuPay, an RBI initiative, are able to settle payments. Brings down their costs will be brought down by scale. Every rupees worth of miniature trades they settle, they are able to be compensated something from the authorities so they have an inducement to make an excellent job of settling modest payments in distant regions. The banking are the bureaus to deploy the swipe devices. Their inducement can be divided by them between Center and payment companies.

With this version to function, 4G and 3G services in rural locations should be inexpensive. That is the primary challenge for plan. For low priced tablets to be effective, not just subsidizing these devices and distributing them to million is not enough, but their connectivity should be high speed and low cost. This requires spectrum plan that aspires for spread of accessibility as an alternative to sales maximization from the apportionment procedure. That means junking the present policy of allocating committed spectrum for providers and businesses.

We need spectrum pooling and dynamic allocation of spectrum whenever it is used for one act of

communications delivery. Sweden already uses a shared network for its 3G services where cashless system is effectively implemented.

To turn dream into reality, India needs strong leadership. We need constructive imagination and political boldness to explain to the people - the ultimate stakeholders - why what is being done is being done the way it is.

So, with cashless economy, the biggest problem of the country i.e. corruption will be solved.

### Conclusion

A cash-less culture will be ground-breaking, safer than money, suitable, faster work and unstoppable. In blend, variables will prove irresistible for most if not all contemporary markets. They are going to prove critical for the continuing existence of money; the more we go towards the potential. Cash-less culture provides various economical and social advantages, relative to some society that keeps cash within their market.

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