22. A Journey towards Cashless India

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Introduction:

The move of Indian Society towards Non-cash modes of payment has been gradual but continuous for last several decades. With the insistence of linking PAN to bank accounts, this process accelerated. The Smartphone revolution, augured since 2012, created varying alternatives such as Mobile Wallets. The process got a sudden shot in the arm with Prime Minister Modi's announcement to de-legalize the existing currency notes of ₹ 500 and ₹ 1000 and introduce the new currency of Rs. 2000 & Rs. 500 effective 8th November, 2016.

The move had its share of controversies, claims and counter-claims. However, encouraging Less-Cash and ultimately Cash-less economy emerged as an important target of this decision. While Indian government is trying its best to makeover in terms of encouraging people to go for cash less transactions, it's necessary to understand how various factors would influence the choice of the people. This study analyses alternative modes of payment and compares them on the basis of factors such as Infrastructure, Education, Convenience to the customer, Availability of the option throughout the day and geographically and last but not least... the cost involved in the usage. The study wishes to highlight that the government's action to curb usage of cash would succeed only if the alternate sources of payments develop suitable environment through proper handling of the aforesaid factors. Thus, we have undertaken the analysis of alternate modes of payments such as plastic money in terms of banking cards, Unstructured Supplementary Service Data (USSD), Unified Payment Interface (UPI), Internet banking, Mobile banking, Mobile Wallets, Any Time Money (ATM), Aadhaar Enabled Payment System (AEPS), on the backdrop of their economic environmental aspects.

Keywords: Demonetization, modes of payments

Literature Review:

Jain, P.M (2006) studied about e-payments and e-banking. As technology has advanced, it leads to optimum utilization of funds for banks, other financial institutions and business houses. He also mentioned about the need, importance and modes of e-payments.

Ashish Das, and Rakhi Agarwal, (2010) explored the cashless payment system in India. They mentioned that the cash payment is an expensive plan of action to the Government and so the country must take step towards cashless economy which will help to track transactions to reduce currency management costs, elimination of tax avoidance, fraud, etc.

K. C. Balaji and K. Balaji (2017) studied about demonetization and its impact on cashless transactions. They mentioned that the cashless system is not only a requirement but also a need for the society. There is risk of cyber-crime on almost all cashless transactions over internet. So there should be proper and complete awareness of using internet banking and digital wallets in a most secure way.

modes of payment:

Cheque/ Demand Draft

A cheque is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand. Oldest and most commonly used mode of payment, cheques need no technology, can work across length and breadth of the country and abroad, can function without infrastructure such as electricity and need extremely basic level of education for the user to adopt. On the other hand, an important point of distinction between cheque and other modes is likelihood of dishonor and the costs and other efforts that it entails.Further, a cheque can be issued and handed over anytime, throughout the day but it is only during the office hours that an issued cheque can be deposited and cashed. Cheque, too, is a cashless mode of payment and for a long time, the most cost effective! The charges for cheques differ from bank to bank. Even now, there is a certain number of cheques, provided free by the banks, after which they are charged. There are additional charges for outstation and local cheques.The dishonor of cheque, as mentioned earlier, involves further charges. A bank issues a demand draft to a client (drawer), directing another bank (drawee) or one of its own branches to pay a certain sum to the specified party (payee).A demand draft can also be compared to a cheque, an essential difference being it is issued to specific party and only after the depositing the amount with issuing bank. As such, there is no question of its dishonour. Issuing a Demand Draft can take place only during banking hours, since the Bank needs to block the amount and issue the instrument. However, banks have started to create online DD issuance facility now.There are no standard charges for making a demand draft and the charges usually vary from bank to bank and also vary with the value of the Demand Draft.

NEFT/RTGS

National Electronic Funds Transfer, or NEFT, is a payment system for one-to-one fund transfer. Available during 8.00 AM to 06.30 PM throughout Monday to Saturday (Except for 2nd and 4th), this is the most common way amongst businesses for money transfer. The processing charges are usually in the range of Rs. 2 to Rs. 5 up to Rs. 200,000 and as such, quite inexpensive. As per RBI norms the funds must be transferred *within twenty four hours* of the deposit of funds by the customer, as NEFT settlements take place in batches.

Real Time Gross Settlement, or RTGS, transfers funds in real time on an order-by-order basis. RTGS offers the fastest method to transfer funds from one bank to another bank or from one branch to another branch. As per RBI norms the funds must be transferred *within two hours* of the deposit of funds by the customer. The timings for RTGS are 08.00 AM to 04.30 PM and the minimum transaction amount needs to be Rs. 200,000. The costs for RTGS are higher in the range of Rs. 25 to 60 per transaction. NEFT/RTGS through Mobile Banking/UPI is a hybrid option, currently free. However, there are usually limits to which amounts you can transfer through it.

Both, NEFT & RTGS are very popular options with Business class, since it facilitates movement of large amounts in relatively lesser speed. It requires certain level infrastructure, such as electricity, internet connection, qualified staff, etc.

IMPS

National Payments Corporation of India launched Immediate Payment Service (IMPS) as an instant real-time inter-bank electronic funds transfer system back in 2010. IMPS offers an inter-bank electronic fund transfer service through mobile phones. It is now being expanded to include other channels such as ATMs, Internet Banking, etc. Unlike NEFT and RTGS, the service is available 24/7 throughout the year including bank holidays. There is limit of per day, per payee amount up to Rs. 200,000 when added as registered beneficiary. IMPS even facilitates money transfer, without adding the payee as beneficiary, but in that case, there would be a lot lower limit on the amount which can be transferred per day, per payee. There is somewhat cumbersome but one time process, required to be done, in the form of Beneficiary addition. IMPS, too, requires availability of Mobile and Internet and certain education level. It is cost effective since the charges per transaction range between Rs. 1 to 5, depending upon the bank and amount.

For all online transfers through RTGS, NEFT and IMPS, one must know accurate beneficiary details like account number and IFSC code, as reversal of the initiated transaction would be impossible and hence, unsafe.

CARDS

A card (also known as a bank card, plastic card or check card) is a plastic payment card that can be used instead of cash when making purchases.Debit Card is used to spend the money, already available in the user's bank account. A credit card is a card issued by a financial company giving the holder an option to borrow funds, usually at point of sale. Cards can be used any time throughout the day, can be used in consonance with other channels such as payment gateways, require no technology if to be used physically and generally, is the simplest way of payment, typically popular for purchases of goods and services, required for consumption. To provide additional security to the user, banks have replaced magnetic strip cards with chip-based cards which require personal identification number (PIN) while transacting.However, usage of Cards involves high costs in form of explicit and implicit charges. One is the annual fees that a bank charges for issuing it to the customer. Two, is the convenience fees that are charged at the merchants outlets for swiping the card at a point-of-sale terminal. There are also limits imposed on the number of transactions (financial or non-financial) that a customer is entitled to. If the customer breaches the limit, bank is liable to charge him. E.g. A customer is entitled to eight free monthly transactions (five at his home bank ATMs and three at non- home bank ATMs) in a metro city. Thereafter for every transaction, a bank charges Rs.20 per financial transaction and Rs 8.5 for non-financial transaction. In SBI Bank, debit card annual maintenance charges is Rs.125 + GST for Classic debit card and Rs.350 + GST for Premium debit card. In HDFC Bank, Annual fee for regular debit card is Rs.100 p.a. (Plus taxes), etc.

Besides, in case of credit cards, there are various charges as well as interest, if the holder fails to make the payment by the due date. Thus, if you do not use your credit card judiciously you can end up in a debt trap. There are even other charges such as renewal fees and convenience fees. The interest rates are sub-prime and may range from 18% upward, with minimum interest payable up to Rs. 300 or so.

E-WALLETS

E-wallets have been one of the biggest beneficiaries of the Government's Demonetization move. It has easy accessibility, simple to load money and has range of uses and it ensures timely payments and quick transfer of funds. It includes Paytm, Freecharge, Mobikwik, etc. The charges are typically applicable to the vendors to whom the payment is made through wallets and for them, they are usually as high as 3% to 4% of the amount. In case of Paytm, it is 3% whereas in case of Mobikwik, it is 4%.

A dipstick study was conducted for the purpose of this paper, where a hundred respondents from various age, gender and economic background, were asked to give rate these modes of payment on the scale of 1 to 10, based on criterion. Higher marks reflected better comfort. Following table shows average of these responses…

Factors	Cash	Cheque	Cards	E-wallets	NEFT/RTGS	IMPS
Costs	9	9	6	7	8	8
Infrastructure	9	8	8	6	7	8
Education	8	8	8	5	6	6
Convenience	6	8	8	9	7	8
Availability	8	6	7	8	7	9
Security	4	8	5	7	8	7
TOTAL	44	47	42	42	43	46

Conclusion:

Though it is a need of the nation that maximum transactions should happen through mediums otherwise than cash, there are lot of obstacles in it. For mobile to become a medium of money transfer, good & cost effective internet service, abundant electricity and online security are vital issues. The overall level of financial literacy also needs to be improved. Most importantly, the electronic/digital modes require minimum costs to the service providers and yet the customer might have to pay higher through direct and hidden costs. This needs to be addressed through popularizing modes like UPI, which are technologically not on equal footing at the moment. That is the only way to achieve the aim of Cash-less economy.

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