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Govts over the years have promoted cashless transactions

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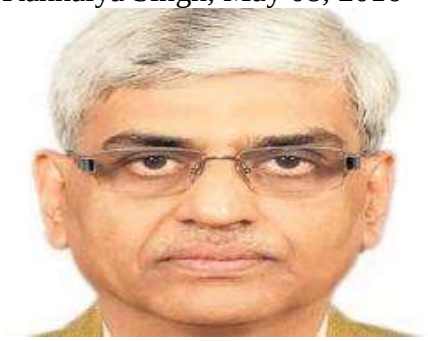

India remains a predominantly cash economy, where currency with public appears to be in the range of 12-13% of gross domestic product indicating poor income velocity of money. It renders Indians as amongst the biggest users of cash worldwide. Therefore, it has been endeavour of present and past governments to reduce cash from the economy to bring efficiency in transaction, increase intermediation and reduce the presence of underground economy.

The most effective way of reducing cash in the economy is the introduction and promotion of electronic payment systems. On the part of government, its successful effort to electronically transfer the social benefits directly to beneficiaries lends huge confidence among potential users of Electronic Fund Transfer (EFT). The 2015-16 data on payments systems indicates non-cash payment volume to be in the order of about 15 billion transactions. This translates in to about 12.5 transactions per annum per person. This can be considered as reasonable progress towards less-cash society given the preference for cash based trading in the country.

With increase in ecommerce and mushrooming of app based enterprises in the country, people's attraction towards use of online payment services is likely to increase further. There are several advantages of EFT which are driving its growth. Broadly, such advantage include time saving, ease of record keeping of expenses, reduced risk of theft and loss, flexibility in time and location of use, and continuous strive of service providers to make it user friendly. However, there are certain risks also in terms of data security, availability and reliability of internet connectivity, transferability across payment systems and infringement of anonymity, which inhibits several individuals to adopt EFT.

Progress in Payment Systems

Considering the non-cash recorded payments, Electronic Payment Systems has come of age and it has almost replaced the paper clearing from 64.5% in 2009-10 to 7.3% in 2015-16 in volume terms. In terms of value, this change amounts to 11.7% in 2009-10 to 4.5% in 2015-16. Introduction of ECS (Electronic clearing service), NEFT, RTGS and products of clearing corporation of India (CCIL) are now common instruments for transferring large funds.

Huge developments are witnessed in retail electronic transfers; plastic money segment including credit cards, debit cards, prepaid instruments; and mobile banking. The volume and

value of transactions through these modes have grown at phenomenal rates (see Table). What is more interesting, is that the average size of transactions in terms of value per transaction has also increased from 2009-10 to 2015-16.

It appears, India is still far from becoming a credit economy. The circulation and use of debit cards is many times more than credit cards. As of December 2011, the number of outstanding credit cards was 17.7 million, which increased to 22.7 million by December 2015. In contrast, the number of outstanding debit cards increased from 264 million in December 2011 to 643 million by December 2015. This difference may be on account of nature of the instrument. While both reduce cash holding, credit cards are instruments to facilitate credit economy. Debit cards simply reduce visits to bank branches and makes banking that much easy.

The plastic money measured in terms of value of credit cards and debit cards transaction had had compound annual growth rate (CAGR) of 101% during 2009-10 and 2015-16. During the same period number of transactions grew at 90% annually. However, this impressive growth is dominated by growth in debit card transactions where value and volume of transactions grew at 152 and 122% respectively during the same period.

Despite lead in overall volume and value, debit cards appear to lose out to credit cards when it comes to high value purchases. During 2015-16 the POS (points of sales) volume of credit cards was 786 million with value of Rs 2,381 billion. As against this the debit cards volume was 1,173 million with value of Rs 1,586 billion. This shows the credit power in motivating higher value transactions. However, from the same figure one can argue that debit cards system is more inclusive catering to the needs of all segment of expenditure class.

Potential and problems of EFT

No-cost in transaction, non-repudiation, and fungibility are the three core properties of cash economy. The success of electronic payment would depend on how close it can bring itself to cash transaction. In case of EFT, there are explicit costs of transaction in the value chain, which are born, either by the consumer or the merchant. The design of this cost needs to be such that it offsets the opportunity cost of not availing these facilities. In case of cash transactions, the settlement is instantaneous and is also non-repudiable, as it does not leave any trail or proof of transaction. With EFT, there is almost no way to eliminate the records of transaction if desired, which could on the other hand be used to verify the trail of money.

The regulatory policy stance of the government is oriented towards promoting a less cash/less paper society, and hence there is increased emphasis on the use of electronic payment products. However, such move require more than establishing infrastructure. There are issue of transaction cost, data security and even more importantly the burden of indirect taxes.

Indirect taxes do not differentiate between rich and poor. While direct tax can be designed on the basis of income structure, it is extremely difficult to implement the same strategy in the case of indirect taxes. Therefore, there is always an incentive for consumers belonging to the stressed income groups to negotiate with merchants for a middle ground that allows them to avoid indirect taxes and obtain cash discounts. However, such activities cannot be supported under transparent system such as EFT. Solution lies in reducing the burden of indirect taxes so much that there is minimum incentive for consumers as well as merchants to avoid it. It would be interesting to watch if ecommerce could provide competitive edge over cash transactions on a sustained basis.

(The author is a Senior Fellow at National Council of Applied Economic Research. These are personal views of author)

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