

Transitioning to a cashless economy not a walkover

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Cashless transactions need to mimic cash, not fight it, for successful adoption

Cash is still king in India. While finance minister Arun Jaitley has highlighted the need for making India a cashless economy to rein in the problem of black money, there are huge challenges in turning this desire into a reality.

India is the largest producer and consumer of currency notes after China. According to the Reserve Bank of India (RBI), the value of banknotes in circulation increased by 11.4% to about R14.3 trillion as at end-March 2015 over the previous year. The volume of banknotes in circulation has increased by 8.1% to 83.6 billion pieces over the same period. Notes of 500 and 1,000 account for 85% of the value, while notes of 10 and 100 together account for 54% of the volume in circulation. RBI spent R37.6 billion on security printing to avoid risk of distribution of notes. Add to this another R15-17 billion a year as the cost of running ATMs.

Currently, less than 5% of all payments are done electronically. Results from the ICE 360 Cash Survey 2014 show that cash is the preferred mode of payment even in Delhi, the most affluent and developed metropolis. Nearly 73% of all purchases by Delhi consumers are paid for in cash and only 17% by card. Even though debit card penetration is far higher than credit cards or pure cash, they are used predominantly for cash withdrawals from ATMs and rarely for cashless transactions.

A primary reason for cash-driven transactions is that an overwhelming majority of retailers, suppliers and service providers belong to the unorganised, informal sector. They have neither the infrastructure to offer card-based transactions nor the inclination to encourage consumers to pay by credit cards or debit cards. Most do not even provide receipts or bills for items or services purchased. Not keeping a record of the transaction enables them to avoid payment of sales tax, and this further leads to low tax collections.

The other important barrier to cashless transactions is the perception of consumers. The benefit of cashless transactions is not evident to even those who have credit cards. Cash, on the other hand, is perceived to be the fastest way of transacting for 82% of credit card users. It is universally believed that having cash helps you negotiate better.

Most card and cash users fear that they will be charged more if they use cards. Further, non-users of credit cards are not aware of the benefits of credit cards. Among debit card holders, who are the most obvious targets for conversion to cashless transactions, only 30% are aware that credit card usage offers a zero-interest credit for a maximum of 30 days. Just 55% perceive credit cards as providing hassle-free and fast payment; and only 22% know of the reward schemes. Further, nearly 75% debit card owners do not realise that with credit cards they can pay in equated monthly instalments (EMIs) without any paper work.

Among the other advantages cited for the use of cash include fiscal discipline and control on overspending; convenience and ease of use, particularly in crowded, uncomfortable market places; and for times when bargaining can get you the best prices. Credit cards also have done little to entice non-credit card users.

Perceptions regarding credit cards have been shaped by marketers who have until now targeted the affluent, educated and salaried individuals employed in the formal sector. This is a minuscule proportion even among the rich. Fewer than 10% of the Indian workforce is employed in the formal sector, and even in the top income earning quintile of urban households, only 55% of chief wage earners (and 30% in rural households) earn a regular salary.

The lifestyle advertising portrayed by credit card marketers reinforces the not-for-me perception, encourages impulse buying ('why wait to have money when you can spend it now?') and does not talk about the financial or utilitarian aspects of cards. The instant gratification appeal of credit cards goes against the grain of pragmatism and financial discipline that the average Indian middle class consumer subscribes to. Unless these perceptions are addressed and efforts are made to challenge the negative aspects of credit card usage, the journey towards a cashless society will remain a long one.

The smartphone, however, could be a big game-changer. With the mobile phone becoming a must-have in all Indian households, it seems highly likely that Indians will leapfrog the point-of-sale (POS) credit card machine and go straight to mobile payments. Low-cost technologies like those used for branchless banking in remote rural areas can be deployed so that card swiping gadgets are attached to smartphones, thus making the smartphone a POS credit card terminal. This calls for the creation of a robust ecosystem that enables every small and micro supplier to accept credit and debit cards. Regulatory controls need to be put in place urgently so that consumer and retailer/supplier confidence is established in the system.

The modes of cashless transactions currently in use today can go only so far in the creation of a cashless society. As the latest Cash Report from G4S cash solutions of the Netherlands/Belgium points out, "With the current electronic solutions, you couldn't even send your children to buy bread." Prepaid cards are extensively used by telecom operators and also offer mobile users the benefit of lower liability in case of loss or fraud in the online space. Such a mechanism could easily be duplicated to accelerate the movement away from cash while mimicking the benefits of currency. If there was a prepaid payment card option available which consumers could preload with small amounts for use at grocer's and neighbourhood retail stores with the benefit of receiving phone alerts for every transaction, it would perhaps be one of the effective ways of transitioning consumers from cash to cashless in a safe and easy manner. Cashless transactions need to mimic cash, not fight it, for successful adoption by society.

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