

Indian Financial Inclusion: An Analysis of Cashless and Digital Economy

Amit Kumar Singh

Assistant Professor,
Deptt. of Economics,
Mahatma Gandhi Kashi Vidyapith,
Varanasi (U.P.), India

Abstract

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society. The need for the development of technologically driven transaction and payment system has gained momentum all around the world. The developed countries already have crossed the initial stage of development and acceptance of paperless and cashless transaction systems in their respective economies. On the other hand, developing and under developed countries have also now identified the positive relationship between financial inclusion and cashless economies. Moving to a paperless form of transaction system can not only save transaction cost but will also be helpful for attracting more and more unbanked customers on the premise of getting benefitted by the use of digital ways of accepting and making payments. The following paper is an attempt to highlight the positive relationship between financial inclusion and digital economy with special reference to India.

Financial literacy is a must for bringing more and more people to the digital platform. Digital payment or payment through banks, instead of paying cash should be encouraged. Linkage of all welfare activities with bank accounts is a very strategic step. A strong banking base is the basic prerequisite for the cashless economy. Targeted financial education programs can improve financial skills and Credit Management, and increase account ownership in rural India.

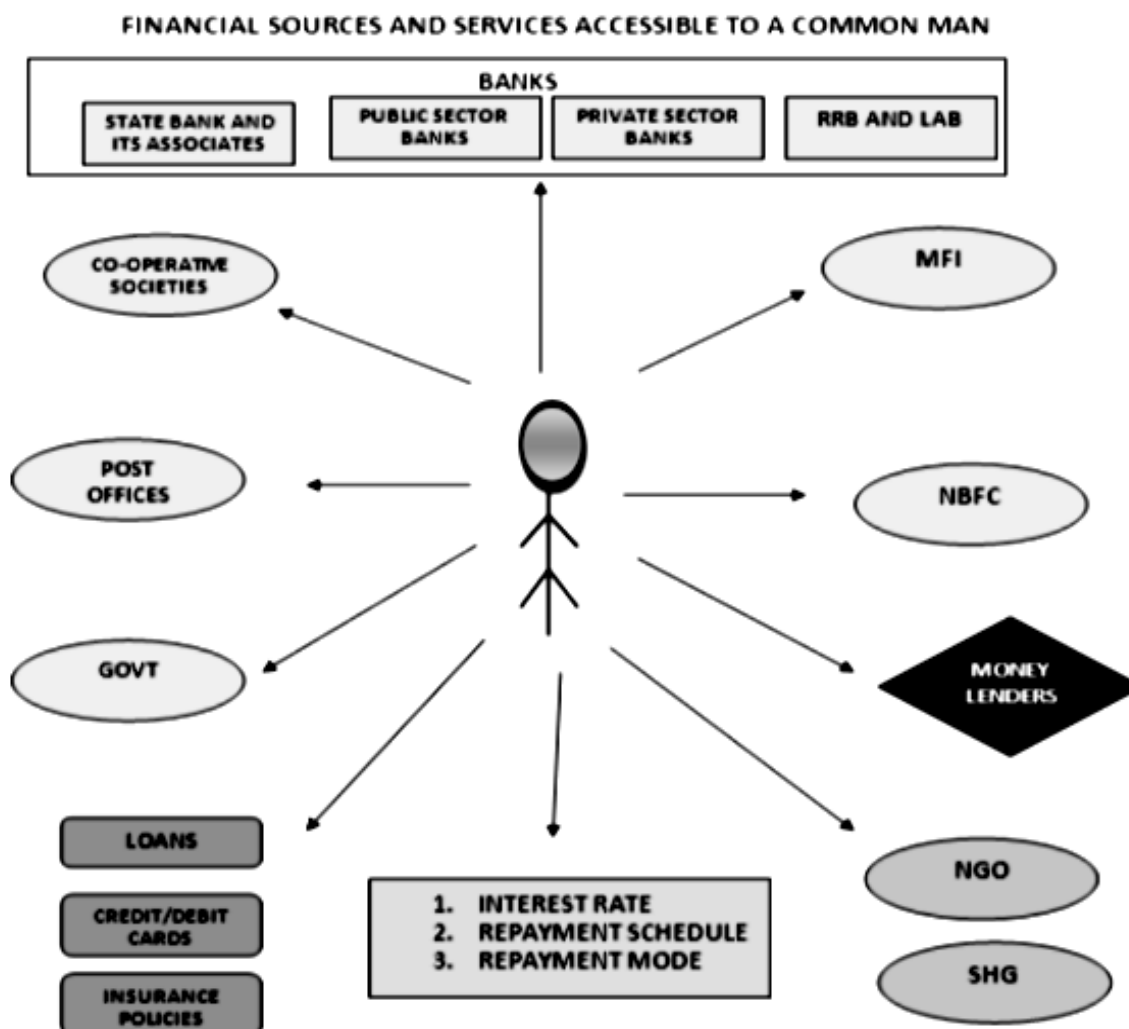
Keywords: Digital Payments, Cashless Economy, Financial Inclusion, Rural India.

Introduction

The demonetization drive in India (2016) aimed at unearthing black money, boosting economic growth, curbing counterfeit currency and money laundering and moving towards a cashless economy. Before the demonetization drive in India, the total banknotes in circulation in India was 17.77 lakh crore (US\$260 billion). In terms of value, the annual report of Reserve Bank of India (RBI) of 31 March 2016 stated that total bank notes in circulation valued to 16.42 lakh crore (US\$240 billion) of which nearly 86% (around 14.18 lakh crore (US\$210 billion)) was 500 and 1000 banknotes. The process of demonetization was accompanied with the Government's focus on increased use of digital payments in order to reduce the problems of consumers in Indian economy, who till recently were almost completely dependent on cash form of transactions. The idea of making India a digital and cashless economy also gained momentum. The debit and credit cards users were less affected by demonetization.

What is a Cashless Economy?

A Cashless economy encourages the use of digital modes of payments instead of cash transactions so as to achieve more transparency in economic transactions. Digital modes of payments are hassle free and consume less time. The World Bank's World Development Report-2016 envisages that in many instances, digital technologies have boosted growth, expanded opportunities and improved service delivery.

**Objectives of the study**

1. To understand the financial inclusion in Indian context.
2. To understand cashless transaction in India where majority population lives in remote area.
3. Why India needs to be a Cashless Economy
4. To understand the linking cashless economy and financial inclusion.
5. To understand mobile/internet in e-transactions.

Why India needs to be a Cashless Economy

Reducing Indian economy's dependence on cash is desirable for a variety of reasons. Less than 5% of all payments happen electronically. India has one of the highest cash to gross domestic product ratios in the world, and lubricating economic activity with paper has costs. According to a 2014 study by Tufts University, The Cost Of Cash In India, cash operations cost the Reserve Bank of India (RBI) and commercial banks about Rs 21,000 crores annually. The following reasons can be attributed for focusing on India's shift to cashless economy

Decrease in Tax Evasion

Shifting away from cash will make it more difficult for tax evaders to hide their income. This will result in increased tax collection which can be a

substantial benefit in a country that is fiscally constrained.

Saves Time and Decreases Risk

Cashless and digital culture for transactions will be less time consuming. In traditional banking culture, customers are needed to be physically present in the branch for depositing money, filling taxes and other payments towards various services. Thus, precious time of the customer gets wasted and extra care has to be taken for transferring currency manually through banks.

High Digital and Financial Literacy Leads To Rise in Savings and Investment Patterns

There are variety of products such as Systematic Investment plans, ULIP's and mutual funds which are less known to majority of customers who have the capability to invest but are reluctant to do so due to lack of financial literacy. This leads to decreased investment patterns in the India.

Greater Efficiency in Welfare Programs

The government will be able to transfer money directly into the accounts of recipients and beneficiaries. Payments can be easily traced and collected. There will be efficiency gains as transaction costs across the economy should also come down.

The benefits of cashless economy will eventually result in improved credit access and financial inclusion, which will benefit the growth of SMEs in the medium/long run. The increased use of plastic currency and UPI enabled transactions will definitely reduce the amount of cash that people carry and as a consequence, reduce the risk and the cost associated with that.

Review of Literature

Sl. No.	Source	Outcomes of Study
1.	Asian Development Bank, 2016	Computerized innovation assumes a basic part in the day by day lives of numerous, especially needy individuals in creating countries. Digital financial services provide the means to overcome such obstacles, and can contribute to national economic growth and financial inclusion. Digital finance has been internationally regarded as an adequate means of providing opportunities to promote financial inclusion through reduction of costs of providing these services
2.	M.F. Mridha, 2017	In this study, author states that the world is moving towards with an automated payment system that's compatible with international standards, but growing number security concerns are also hindering its popularity.
3.	(Radcliffe & Voorhies, 2012).	The expansion of digital payment platforms has offered the opportunity to link poor people with providers of savings, credit, and insurance products
4.	(Ramasubbu, 2009)	In this study author argued about the advantages of digital wallets over physical wallets and highlighted the four factors for Singapore Market for digital wallets and demonstrated a prototype of digital wallet.
5.	(Rani, 2016)	In this paper author explains problems faced by shopkeepers, how their business affected and the effects on most popular brands sale. This paper also

		noted that consumers are shifting to cashless means such as Paytm, internet banking etc. Author discusses that by adopting the cashless means certainly there will be a check on black money
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Hypothesis of the study

On the basis of the objectives of the study, following hypothesis has been formulated:

H01

There is no significant impact of financial inclusion on the growth of Indian economy.

H01

There is a significant impact of financial inclusion on the growth of Indian economy.

Research Methodology

This study is based on secondary data that was mainly collected from Report of RBI, Ministry of Finance, Government of India, and Reports on trend and progress of banking in India, Newspapers, Research Articles, Research Journals, E-Journals, Books and Magazines. Various websites were also used like RBI, Ministry of Finance, and Government of India (Gol). The period under consideration for the study is seven years from 2014–2015 to 2015–2016 till now. The present study taking Gross Domestic Product (GDP) as a dependent variable and independent variables are Number of Bank Branches in the country.

Linking Cashless Economy and Financial Inclusion

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society. Financial inclusion may be defined as: —The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable and reasonable cost. The essence of financial inclusion is to ensure delivery of financial services which include bank accounts for savings and transactional purposes, low cost credit for productive, personal and other purposes, financial advisory services, insurance (life and nonlife) etc.

Ratio of cash to GDP

S.No.	Country	Ratio of Cash to GDP	Number of notes in Circulation
1.	India	12.42%	76.47 billion notes
2.	China	9.47%	----
3.	Brazil	4.0%	----
4.	USA		34.50 billion notes

Conclusion

Financial inclusion and promotion of digital payment methods are very much related to each other. Financial inclusion is not confined to availability of financial services to the poor only. It also focuses on the increased use of other secondary financial services by the customers who are using only limited banking services. The following points support the relationship between the two:

Ease of Transferring Money

The use of various methods of transferring money through cashless transactions has helped the cause of financial inclusion in India. Now it is possible to send and receive money by using feature mobile phones also. Adoption of methods which lead to cashless transactions are also helpful in promoting financial inclusion.

Spread of Digital Literacy and Financial Inclusion

Focus on digital literacy automatically strengthens financial inclusion of the customers. Getting acquainted with the new methods of transactions allows the customers to use various financial services which were previously not used by them.

Use of Cashless Methods for Transferring Subsidies via UID

The government of India has recently focused on payment of subsidies of essential products and services by directly transferring the subsidies in the beneficiary accounts. This has led to the opening of new accounts under Pradhan Mantri Jan Dhan Yojana. People who were previously unbanked and not willing to have a bank account are now operating bank accounts in order to avail these subsidies.

Use of Digital Wallets

The steps taken by the Government to promote the use of digital wallets by the customers also helps in promoting the cause of financial inclusion. Use of digital wallets such as BHIM and other private e-wallets facilitated and supported by National Payments Corporation of India (NPCI) are also helpful in financial inclusion.

Unified Payments Interface (UPI)

UPI has been launched by National Payments Corporation of India (NPCI) to further RBI's vision of transitioning towards a less cash and more digital society. A set of standard application programming interfaces (APIs) provide an interoperable system for seamless transfers, and it has been built on top of the immediate payment service (IMPS) platform. The UPI ecosystem functions with 3 key players:

1. Payment service providers (PSPs) to provide the interface between the payer and the payee. Unlike wallets, here the payer and the payee can use two different PSPs.
2. Banks will provide the underlying accounts. In some cases, the bank and the PSP may be the same.
3. NPCI will act as the central switch by ensuring Virtual Payment Address (VPA) resolution,

effecting credit and debit transactions through IMPS.

Making of Cashless Rural India

All over world, there is a tremendous interest among policymakers to explore the possibility of moving towards a cashless economy. Digitization of transactions is the best way to move towards cashless economy. In India, Rural areas are home to two thirds of the country's population (approximately 870 million people). Much of the challenge lies in achieving cashless transactions for the rest of the decade. It is estimated that rural users will constitute almost half of all Internet users in 2020. Number of connected rural consumers is expected to increase from 120 million in 2015 to almost 315 in 2020. Over 93% of people in rural India have not done any digital transactions. So the real problem lies there. The government has taken steps including announcing zero balance accounts for people, but growth of Bank branches has been low.

Problems in transition of Indian economy in a Cashless Economy.

A large part of the population is still outside the banking net and not in a position to reduce its dependence on cash. A World Bank survey reveals that while about half of all individuals in India had bank accounts in 2014, only 12% had made a cashless transaction in the past year. According to a 2015 report by Price water house Coopers, India's unbanked population was at 233 million. Even for people with access to banking, the ability to use their debit or credit card is limited because there are only about 1.46 million points of sale which accept payments through cards. Almost 90% of the work force, which produces nearly half of the output in the country, is in the unorganized sector. It will not be easy for the informal sector to become cashless, and this part of the economy is likely to be affected the most because of the ongoing currency swap. There is a general preference for cash transactions in India. A meaningful transition will depend on a number of things such as awareness, technological developments and government intervention. A study by Boston Consulting Group and Google noted that wallet users have already surpassed the number of mobile banking users and are three times the number of credit card users. There are many challenges in transforming India in a cashless economy. They are summarized as follows:

Currency Denominated Economy

High level of cash circulation in India. Cash in circulation amounts to around 13% of India's GDP. High level of cash circulation proves as an obstacle in achieving cashless economy.

Transactions are Mainly in Cash

Large size of informal /unorganized sector entities and workers prefer cash based transactions. The workforce in informal sector finds it difficult to save money in bank accounts and use the various methods of cashless transactions.

Limited Availability of point of Sale Terminals

Most of the POS terminals remain in urban/semi urban areas. Also the demand for POS terminals has not been met adequately. Banks are

unable to provide the POS terminals in required numbers. This acts as a hindrance in transforming India in a cashless economy

Mobile Internet penetration remains weak in rural India

In India there is poor connectivity in rural areas. Lower literacy level in poor and rural parts of the country makes it problematic to push the use of plastic money on a wider scale.

Future Challenges in Sustaining Cashless Economy

A material transition to a cashless economy will depend on a number of factors. Banks and related service providers will have to constantly invest in technology in order to improve security and ease of transaction. People will only shift when it's easier, certain and safe to make cashless transactions. The government will have to find ways to incentivize cashless transactions and discourage cash payments. Implementation of the goods and services tax, for example, should encourage businesses to go cashless. Government should also use this opportunity to revamp the tax administration, as more than taxes, small businesses fear tax inspectors. The government will have to create conditions not necessarily by creating cash shortages to push cashless transactions to a threshold level after which the network effect will take over. India may not become a cashless economy in the foreseeable future, but it needs to reduce its unusually high dependence on cash to bring in much needed transparency and efficiency in the system.

Prospects and the Road Ahead

The Jan Dhan Aadhaar Mobile (JAM) can encourage digital transaction culture. It is spreading to reach each remote corner of the country. A large number of government transfers (DBT) are made through JAM mode. This will help people to get digital transaction awareness. The role of the government in these cases will be to make cashless transactions mandatory for certain payments and make it mandatory for certain services exceeding a certain amount which has already been initiated. A tax rebate on payments made by households as salary to unorganized sector (domestic servants, sweepers etc.) can boost cashless payments. This will help the households will have an incentive to go cashless. Government should assure basic necessities in rural areas and focus on developing infrastructure. Special drive through schools, colleges, Panchayats etc. can help create awareness about cashless/banking transactions. Financial literacy is a must for bringing more and more people to the digital platform. Digital payment or payment through banks, instead of paying cash should be encouraged. Linkage of all welfare

activities with bank accounts is a very strategic step. A strong banking base is the basic prerequisite for the cashless economy. Targeted financial education programs can improve financial skills and Credit Management, and increase account ownership in rural India.

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