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on  
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SYSTEM AND  
RURAL INDIA"

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# RESEARCH DIMENSIONS

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## THE FUTURE OF CASHLESS

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### WHAT ARE THE EFFECTS OF DEMONETIZATIONS IN BHARAT?

1. Demonetization has given force to cashless transactions. The reduction in the supply of cash has forced people to go in for card payment wherever possible.
2. There is a phenomenal increase in card payment as well as mobile transactions after demonetization.
3. If the withdrawal limits are fixed and lower denomination notes are circulated, people will go in for card or mobile or net banking.
4. Government should withdraw Rs. 2000 and Rs. 500 notes gradually, and replace it with fifty and hundred.
5. Those who trade cashless may be given incentives both for consumer and the businessman.
6. Bank commission for every swipe should be reduced to a minimum so that it does not be a burden on the people.
7. Training for the public on the use of mobile apps is needed.

The idea of a cashless society in India may sound implausible. The Smartphone explosion in India is expected to user in this new era in digital payments over the next few years. 8 November, 2016 may prove to be a red-letter day for the country if the government and its citizens use the opportunity to steer the economy towards a truly digital future.

Digital transactions, in fact, began booming after e-commerce firms such as Flipkart, Snapdeal, Amazon, Mantra and Jabong began offering attractive discounts to customers. Banks contributed with their own mobile wallets, mobile banking apps, and pitches of banking on smart watches and even social networking sites.

Consumers who have tried digital payments but have now shifted to other modes such as cash and card, etc., say that inconvenience of remembering login credentials, low acceptance, and possibility of a technical or human mistake during a transaction, and frequently running out of balance are the top reasons for relapses. Hence, expanding merchant acceptance is critical to mass adoption of digital payments by consumers.

### 'In the future, there will be no further payments'

Such a future scenario may sound exaggerated but it needs to be taken seriously since it comes from the World Wide Web Consortium (W3C), which talks of developing Universal Transfer Protocol ledgers that are capable of staging a transfer through escrow. The payment is prepared by putting assets in escrow on each ledger and all ledgers agreeing on a release condition proposed by the receiver. The payment is executed by releasing funds to the receiver first and then passing the signed release fulfillment back down the line. Such a protocol, suggests the W3C paper, will help digital assets to be securely relayed across multiple ledgers and networks.

Regardless of whether such a scenario comes to pass or not, nearly every innovation we have seen has

eaten into the share of cash. It is possible that a section of people which has used electronic mode of payment for the first time due to the cash crunch will continue to transact through this medium, but there are still a number of hurdles in making India a cashless economy.

First, a large part of the population is still outside the banking net and not in a position to reduce its dependence on cash. Even for people with access to banking, the ability to use their debit or credit card is limited because there are only few points of sale which accept payments through cards.

Second, about 90% of the workforce, which produces nearly half of the output in the country, works 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.

Third, there is a general preference for cash transactions in India. Merchants prefer not to keep records in order to avoid paying taxes and buyers find cash payments more convenient. Although cashless transactions have gone up in recent times, a meaningful transition will depend on a number of things such as awareness, technological developments and government intervention. For instance, mobile wallets have seen notable traction, and it is possible that a large number of Indians will move straight from cash to mobile wallets.

However, as noted above, a material transition to a cashless economy will depend on a number of factors. First, the availability and quality of telecom network will play an important role. Presently, people face difficulties in making electronic payments even in metro cities because of poor network. Second, as one of the biggest beneficiaries of this transition, 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. Third, the government will also need to play its part. It 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.

To be sure, the government on its part is working at various levels to reduce the dependence on cash. Opening bank accounts for the unbanked under and adoption of direct benefit transfer is part of the overall idea to reduce usage of cash and increase transparency.

Shortage of cash has significantly increased the use of digital modes of payment, but the actual shift will only be visible after the cash crunch eases. It is possible that a section of people which has used electronic mode of payment for the first time due to the cash crunch will continue to transact through this medium, but there are still a number of hurdles in making India a cashless economy.

Digital drive is facilitated by electronic payments because of convenience, discounts, tracking spends, lower risk and gains, such as, refuse borrowers and eliminate the problem of small change. Further, macro-economically, it enhances efficiency and transparency by reducing transaction costs.

In a cashless economy, the flow of cash is non-existent and all monetary transactions are done electronically via internet banking or wallets, and debit or credit cards, thus eliminating or drastically reducing physical presence between two transacting parties. Less cash is a win-win situation for all stake-holders, viz, customers, bankers, government, etc. However, 'cashless' economy is a misnomer because very few economies are 'cashless'—certainly not the most developed economies.

Given India's socio-economic peculiarities, the promotion of an eco-system of digital payments is challenging and necessitates, inter alia, a roadmap for e-payments, robust online banking systems, incentivizing cashless transactions and, successfully implementing country-wide digital transaction mechanisms. The surge in digital payments post-demonetization needs the complete support of all stake-holders to meet the challenges of the present and the expectations of the future.

1. Money in the form of bills or coins; currency.
2. Liquid assets including bank deposits and marketable securities.

3. Money paid in currency or by check; paid in cash.

To exchange for or convert into ready money; cash a check; cash in one's gambling chips.

The RBI classifies every mode of cashless fund transfer or transaction using cards or mobile prepaid payment instrument'. These can be issued as smart cards, magnetic stripe cards, Net banking wallets, mobile accounts, mobile wallets or paper vouchers. These are

**CLASSIFIED INTO THREE TYPES:**

**Closed:** Issued by an entity for purchasing goods and services only from it, these don't allow cash withdrawal or redemption. Ola Money is one such closed wallet.

**Semi-closed:** These are used to buy goods and services, including financial services, from merchants through a specific contract with the issuer. These too don't allow cash withdrawal or redemption and include services offered by service providers like Paytm and State Bank Buddy.

**Open:** These can be used to buy goods and services, including fund transfers at merchant locations, and permit cash withdrawals at ATMs. All Visa and Master-Card cards fall into this category.

**CONCLUSION:**

Demonetization has given force to cashless transactions. The reduction in the supply of cash has forced people to go in for card payment wherever possible. There is a phenomenal increase in card payment as well as mobile transactions after demonetization. But a material transition to a cashless economy will depend on a number of factors. First, a large part of the population is still outside the banking net. Second, about 90% of the workforce, which produces nearly half of the output in the country, works in the unorganized sector. Third, there is a general preference for cash transactions in India. So the government on its part is working at various levels to reduce the dependence on cash.

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