

Move to less-cash society gains currency

As cash gets dear, digital payments see acceptance levels shooting up; government is only too happy to play the facilitator

N SUNDARESHA SUBRAMANIAN
New Delhi, 30 November

At a conference organised by the Confederation of All-India Traders (CAIT) on Saturday, NITI Aayog chief executive officer Amitabh Kant said, "There will be cash but very little cash. Without digitisation, you won't go forward. And, without you, the country won't go forward." Using the opportunity, the traders' body asked for certain sops. One was the reduction of the excise duty on point-of-sale (PoS) machines, which cost ₹8,000-20,000. In addition, traders also incur annual maintenance charges.

Getting the message across to Kant, who is heading a team that is advising the government on the cashless economy, helps. Two days later the government removed the excise duty on goods for manufacturing of PoS machines that are in great demand as merchants are being compelled to use them in the wake of the currency crisis. A notification granting exemption from 12.5 per cent excise duty and 4 per cent special additional duty till March 31, 2017, was introduced in Parliament.

Swift response, coordinated efforts by various arms that often do not talk to each other, and out-of-the-box solutions have been part of the government's strategy in its new zeal to push for a less-cash, digitalised economy. It helps that the cash crisis after demonetisation has increased acceptance of digital payment modes. The economy is on an irreversible path where digital transactions look set to expand their share significantly from five per cent now.

Hard-selling e-payments

After hearing tea plantation workers in Assam hit by demonetisation, the Centre directed bank accounts be opened for thousands of them by December 5. In the meantime, it directed tea garden owners to transfer wages to the bank accounts of district magistrates for disbursement.

State-owned enterprises are doing their bit too. Last week, ONGC's directed all department heads and key executives to ensure wage payments, even at the sub-contractor level, were done through banking channels. Others such as SAIL, IOC, BPCL and Oil India are moving aggressively towards ending cash dealings with employees, vendors, customers, and contractors and their workers. The labour department has also sent instructions to establishments under its purview that wages must be paid digitally.

Such measures fit well into the larger structure put in place through legislation and technology infrastructure and might help accelerate the migration.

Recent growth trajectory

According to the Reserve Bank of India, electronic payments, particularly retail payments, have shown healthy growth since 2012-13, both in volume and value. RTGS and NEFT volumes increased almost threefold between 2013 and 2016. Similarly, with an increasing number of banks offering mobile banking services and driven by the growth in e-commerce and use of mobile payment applications, the volume of mobile banking transactions has increased nearly sevenfold. New channels such as prepaid payment instruments, the RBI's description of e-wallets, and immediate payment service have grown significantly. Cheque payments, on the other hand, declined in volume as well as value between 2013 and 2016.

However, there is another statistic that shows the wide gap in the acceptance infrastructure.

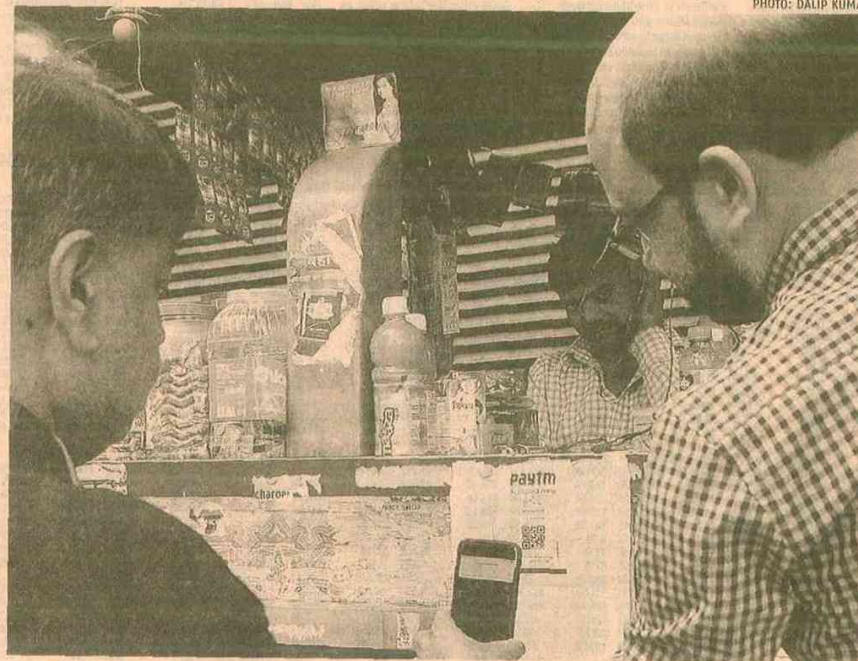


PHOTO: DALIP KUMAR

According to the CAIT, there are about 60 million small traders in the country, but only 1.4 million PoS terminals are in use.

The road ahead

Experts feel the goods and services tax, which is scheduled to roll out from April, will bring a significant portion of those 60 million traders into the formal economy. Sudhir Kapadia, national tax leader, EY India, says, "The GST is clearly one measure that will bring a lot of people into the formal economy." Kapadia adds not being on the GST platform means a loss of input credits, which will affect competitiveness. "Market forces will incentivise reporting the turnover," he says. And there are only four ways of paying the GST: credit card, debit card, NEFT and RTGS. "There is no fifth way. Therefore, once you are on the GST, you have to go cashless," adds Praveen Khandelwal, secretary-general of the CAIT.

On Monday, the Centre also announced an amendment to the Income Tax Act to put in place a scheme for unaccounted deposits. The move will help bring more cash into the banking system, experts feel.

The legal framework for payment and settlement systems is provided in the Payment and Settlement Systems Act, 2007. The Act, which empowers the RBI to regulate and supervise payment and settlement systems, needs to keep pace with rapid technological changes. The RBI's Vision 2018 document published in June highlights responsive legislation as one of the four strategic initiatives needed to become a less-cash India. It identified the policy framework for central counter-parties, regulation of payment gateway service providers and payment aggregators, and a monitoring framework for new technologies as focus areas for responsive regulation.

Cards, cards everywhere

The government has implemented the JAM (Jan Dhan, Aadhaar, mobile) strategy to reach out to the

unbanked population. According to the government, 256.8 million Jan Dhan accounts have been opened till last week. With most of these accounts coming with RuPay cards, the total number of debit cards in the country has crossed 636 million. "There are about 700 million card-holders in the country today. But 90 per cent of debit cards are only used to withdraw money from ATMs. With ATMs running dry, users are opening up to various transactions. Demonetisation has triggered this fundamental, behavioural change," says an executive with Mastercard.

An RBI concept paper on the card acceptance infrastructure released in March says growth has not kept pace with card issuance. The number of debit cards grew 64 per cent between October 2013 and October 2015 but the number of PoS machines rose by 28 per cent. As of December, there were about 1.24 million PoS machines in the country. Considering many big establishments have multiple machines, the effective number of establishments using these could be 500,000-700,000.

The report also shows that card acceptance infrastructure is concentrated in urban and semi-urban areas. A majority of the cards issued with Jan Dhan accounts in rural areas are rendered useless by this lopsided acceptance infrastructure.

This is where the government is trying to use the mobile and Aadhaar combination. Executives from mobile wallet companies say there have been several meetings with the finance ministry, NITI Aayog and other ministries where possibilities of using mobile wallets and other digital payment solutions have been discussed.

At 371 million, the mobile Internet user base in India is among the highest in the world and is growing fast. Applications and prepaid instruments such as wallets have been actively targeting this segment. The National Payments Corporation

of India (NPCI) has built the Unified Payment Interface (UPI), which has now become operational with the State Bank of India and HDFC Bank recently joining to complete a seamless network. Experts see the UPI becoming a leading payment interface.

NPCI has also built capabilities that allow users of feature phones to access their bank accounts through the unstructured supplementary service data (USSD) technology. This will considerably expand the availability of banking services to feature-phone users, who are still in the hundreds of millions. For the section of the population that does not have a mobile phone, Aadhaar-enabled payment systems, which use biometrics, come into play. At 1.08 billion Aadhaar cards issued, 99 per cent of the adult population is covered.

Bridging the gap

Technocrat Nandan Nilekani, who has been tweeting on every advancement in this area, said in a television interview that any short-term contraction in economic growth due to demonetisation would be compensated for very quickly "with digitisation".

Building acceptance infrastructure in areas where it is absent will be key for digitisation. Pramod Saxena, chairman and managing director, Oxigen, says the government has estimated a requirement of 20 million micro-ATMs, which use Aadhaar-based identification systems. Oxigen has around 200,000 PoS devices and has ventured into micro-ATMs, which it is installing in collaboration with merchant establishments.

"We have put up 600 micro-ATMs and plan to set up 2,000 more in December. In three years, we plan to set up 1 million of these machines," says Saxena.

Banks have also taken steps to improve the acceptance infrastructure for non-cash payments; the State Bank of India has waived installation charges for PoS terminals. But card usage charges, which range from 0.75 per cent to 1.25 per cent for debit cards and 1.25 per cent to 1.75 per cent for credit cards, continue to be an irritant, Khandelwal of CAIT says. He wants the government to subsidise these charges. NPCI has done its bit here by capping charges at 45 paise per transaction for RuPay cards.

Recently, the Telecom Regulatory Authority of India cut user charges for USSD to a third. Kapadia of EY India says the government has already done enough, now entrepreneurs will take over. "The market has seen the opportunity and is well placed to take it. I don't think the government needs to do anything more," he adds.

Cash killers

Entrepreneurs are keen to cash in. Rohit Chadda, founder of digital payment aggregator Paylo.in, says he has seen thousands of downloads of his app since demonetisation was announced. From being a style statement for the young and upwardly mobile, e-wallets and other payment systems are being embraced by a much broader population.

Saxena of Oxigen says the cash crisis has changed the picture dramatically. "Earlier, it was an effort by a few players trying to push digital payments. Now the merchant wants to sign up himself. Acceptance levels have gone up by a factor of 100," he adds.

Other advancements such as use of QR codes

DIGITAL-MONEY MARKET PLACE

636 million

DEBIT CARD USERS

ACCEPTANCE INFRASTRUCTURE

| PoS: Cost | Mobile-PoS: Swiping gear attached to mobiles cost | Virtual-PoS: No fixed charges E-payment gateway using portals |
|---------------------|---|---|
| ₹ 8,000 to ₹ 20,000 | ₹ 2,000 | |

200-250 million

SMART PHONE USERS

UPI: USES VIRTUAL PAYMENT ADDRESS TO ACCESS BANK ACCOUNTS

| Mobile wallets: such as Paytm, Oxigen | Limits for individuals: ₹20,000 Merchants: ₹50,000 | Limits can be enhanced: ₹1 lakh on e-kyc |
|---------------------------------------|--|--|
| | | |

400-500 million

FEATURE PHONES USERS

USSD-BASED ACCESS TO BANKING TRANSACTIONS

Unstructured supplementary service data: 50 paise per session

1,080 million

AADHAAR

(Biometric identification)

AADHAAR-ENABLED PAYMENT SYSTEMS - MICRO ATMs - USED BY BANKING CORRESPONDENTS

Transactions possible:

| | |
|-----------------|-----------------------------|
| Balance enquiry | Cash deposit |
| Cash withdrawal | Aadhaar to aadhaar transfer |

Source: NITI Aayog presentation

that represent bank account details in a machine-readable square and UPI 2.0 are in the works. The USSD feature is also being upgraded to do away with the need to generate a MMID code for each user. The Aadhaar coverage is also expected to be complete in the next five months.

Nilekani, who helped build the Aadhaar infrastructure and is now an adviser to NPCI, predicts digital transactions will grow in the next six months to a level that would otherwise have taken six years. Saxena of Oxigen says, "In the next three to five years, you will see digital transactions amounting for 30-35 per cent against 5 per cent now. In seven to ten years, this can go up to 60 per cent."