The long road to cashless India

NITI Aayog chief executive officer Amitabh Kant recently spoke of debit cards, credit cards and ATMs becoming redundant in the next three to four years. Since demonetisation, the government has been working to make India a cashless economy. With the ubiquity of Aadhaar, smartphones and the new unified payments interface (UPI)-based apps, it wants to move on from cash to a digital payments economy—where everything from payment to receipt is done online.

Kant’s prediction about debit and credit cards has the potential to come true because the infrastructure to replace physical cards, as well as the momentum in the adoption of alternative payment mechanisms, is well under way. While debit and credit cards continue to dominate retail digital payments, the UPI and prepaid payment instruments (PPIs) are catching up.

Between 2014-15 and 2016-17, the share of PPIs in total volume of card transactions increased from 18% to 36%. PPIs caught on when customers didn’t want to authenticate recurring transactions through the two-factor authentication process. That is why they linked their prepaid wallets with cab-hailing, mobile-recharge and grocery-shopping services. Then, in August 2016 came UPI, based on banks’ immediate payment service (IMPS). It linked the user’s various bank accounts to a single mobile application, doing away with the need to recharge a wallet. UPI transaction volumes have increased from 4.2 million in January to 30 million in September 2017 (growing 85% between August and September itself). While PPIs still have much higher volumes (87 million) right now, UPI is eating into their share as well as that of cards. This is expected to continue with the launch of UPI 2.0, which will bring the ease of pre-authorized deductions for recurring payments, like cab rides, to UPI, along with a possible increase in the transaction limit from the present Rs1 lakh. Major PPIs have already integrated UPI into their service so as to not lose customers to competing UPI-only apps.

With regard to offering a point of sale (POS) payment solution, Samsung is the first mover in India, offering a mobile payment mode that works on all existing terminals—whether contactless or not—with Samsung Pay; the technology is available on select handsets. Samsung’s entry is likely to be followed by that of Google and Apple, which can lead to wider adoption.

Thus, cards might well be on their way out. But making ATMs redundant is a task of vastly different proportions. An ATM’s role is to dispense cash, and reducing the dependence on cash requires a massive increase in the adoption of bank accounts, mobile wallets and payment platforms. There are several challenges here.

A prerequisite to a less-cash economy is financial inclusion. The Economic Survey, 2015-16 reported that the basic savings bank penetration was 46% across states, on average. The Jan Dhan Yojana (JDY) had laudably managed to open 294 million bank accounts as of August 2017, increasing access to the formal banking system for the unbanked masses, but a quarter of them remain zero-balance inoperative accounts.

If people received income in their bank accounts and could spend digitally, they could go cashless. But most people work in the informal economy and get paid in cash. Then there is the scarce use of mobile payment platforms. Most product vendors still don’t use a mobile platform to receive payments because there are limited use-cases for digital money. Take the case of Thane’s Dasai village, which was touted as India’s first cashless village last year,but has gone back to its old ways. The village doesn’t have a reliable internet service, which hampers the functioning of POS devices and even ATMs. All applicants haven’t been issued ATM cards and since cash has become available, people have had little reason to use them anyway.

Finally, mobile wallets are largely designed for use on smartphones, and 56% of Indians still use feature phones. Given the frequent power outages, poor connectivity and low income, smartphones have limited utility for most people. Moreover, recent offers have reduced the acquisition cost of handsets to near-zero; and survey data from Kantar IMRB shows that only 15% of the current feature-phone users intend to buy a smartphone. UPI does work with feature phones, but it was used for just 0.19 million transactions out of the 9 million that happened in May.

India has been unable to increase accessibility to banks within the formal banking system; only 27% villages have a bank branch within 5km. But the increase in the number of payment banks can bring the basic banking functions of securing deposits, providing an ATM-debit card and allowing access to online payment gateways. Private vendors are accustomed to collecting user fees for telecom companies and they are now being used to provide last-mile banking services like opening accounts by filling KYC forms, cash withdrawals and deposits.

Interoperability across PPIs may increase adoption by vendors and, therefore, increase the use-cases for people. But the largely informal nature of the economy, the preponderance of feature phones and the old habit of using cash are enduring problems that will keep the cashless economy from spreading outside urban centres for many years.

Will India be able to reduce dependence on cash in the next four years? Tell us at views@livemint.com

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