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Internet Citizens, Cashless Economy and Scope of Financial Inclusions

Abstract

A cashless economy is one in which all the transactions are performed using cards or by digital means. In India demonetisation of currencies, digitalized (cashless) transactions are promoted in order to give a fillip to cashless economy. Bank connectivity is a must for digital transactions. Strict enforcement of digital transactions will rapid the process to ensure financial inclusion in time bound manner. Rush to cashless economy or digital money system has its merits and certain demerits if you are not alert. One of the most important aspects is that it will pave the way for universal use of banking services. It will minimize the use of physical currency in circulation. Lower liquidity in cash supply may force the parallel economy to become limited in size. Real estate, fake currency, drug smuggling are going to be reduced considerably. The most important question is how to make a smooth transition so that financial inclusion is more efficient and in all segments of economy. This paper analyses the penetration of internet, internet and digital payment market, explore the possibility of going cashless with financial inclusion in India.

Keywords: *Internet markets, Digital Inclusion, Perception of Corruption.*

Introduction

In the current world scenario we see economic progress in most of the dominant companies as well as economies are more of an outcome of technological improvement and innovation in transaction resulting in better economical process. Interplay between technologies, collaboration of entities to that effect are explored to bring more leveraging rides, possibilities, competitive advantages and larger earnings to the enterprises and entities. Looking for profit booking, visibility and cost reductions have made brick and mortar companies to add to click and mortar wings to reach wider audiences to

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sell more and to gather more revenue. In short, finer integration and successful management of online and offline sales are key points to survival. Real time sales and production data is helping inventory management in sync with demand and production. Growth of Alibaba, ebay, Amazon is a fantastic outcome of technology, technology enabled platforms for vendors, more opportunities for sellers and differentiated payment mechanisms including digital payments. Thus, they are giving everybody a growing platform.

Shopzilla (100 million products, 40 million monthly visitors), shopping.com owned by e-bay, Google Shopping extensively enjoy traffic from shopping engines and Google adwords. Social media websites allow visitors to shop in the same page where they chance upon a good deal. Moreover, consumer behavior is tracked, followed, analyzed and at the same time opportunities are explored online to fuel the demand and execute the sale. Financial payment system follows the innovation in marketing. They provide substitute to cash with trust consequently enhancing liquidity in the system. Market or commerce gets a tremendous boost due to added liquidity as provided by innovation in payment mechanisms. Studies say that digitalisation in past provided 1.5% growth in GDP for developed economies like the USA and at present may be adding 0.5% growth as their market matures.

Digitalisation is here to stay. Digital transformation provides much needed breathing space for organisations to tackle disruptive changes, to improve operational advantages and to facilitate end-to-end consumer experience. Digitalisation is adding to the efficiency, cost reductions and importantly revenue augmentation. A study by Grand View Research, Inc. calculates digital transformation market to surpass USD 798.44 billion by 2025 and is clearly buoyant on sustained increasing demand for internet of things for this market growth. In 2018 e-commerce and consumer internet companies in India raised more than \$7bn (\$ 5.9bn in early stage capital and \$1.3bn invested as expansion capital). Investments are mostly by private equity and venture capital. The same Ernst and Young report covered hyperlocal, travel and hospitality, B2C, edtech, fintech, healthtech, logistictech, social commerce, gaming as a part of e-commerce and consumer internet. Start-ups like OYO, Swiggy, Byju's, PayTm Mall, Pine Labs, Zomato, Udaan, PolicyBazaar and CureFit raised 4.6 billion in 2018. Besides Walmart's acquisition of Flipkart of \$16 billion, Alibaba's investment in BigBasket and PayTm, Tencent's investment in Dream11, and Naspers investment in Byju's and Swiggy testify the potential of this segment of the market. The current paper analyses the penetration internet, internet and digital payment market; explore the possibility of going cashless with financial inclusion in India taking these as indicators of future growth or adaptability.

Size of the Internet Market

Here we have taken internet users across worldwide as synonym to potential growth of the digital market. Table (1) and (2) provide information regarding internet users to total population and usefulness or addiction to net in terms of average no. of hours users spent on the platform. Looking at the table one thing is clear that there is prevalent of this medium worldwide. Digital unification is happening at a rapid pace. The Caribbean and Northern Africans close to 50% and only middle and Eastern Africa remain the regions with less than 30% coverage.

Table 1: Internet Penetration by Regions (January 2018)

<i>Region</i>	<i>Internet users to total population</i>	<i>Region</i>	<i>Internet users to total population</i>
North America	88	Northern Europe	94
South America	68	Eastern Europe	74
Central America	61	Western Europe	90
The Caribbean	48	Southern Europe	77
Northern Africa	49	Oceania	69
Western Africa	39	Western Asia	65
Middle Africa	12	Central Asia	50
Eastern Africa	27	Eastern Asia	57
Southern Africa	51	South East Asia	58

Source: Internetworldstats: ITU: Eurostats: Internetlivestats: Ciaworldfactbook: Governmentofficials: Regulatoryauthorities: Reputablemedia: <https://wearesocial-net.s3.amazonaws.com/wp-content/uploads/2018/01/DIGITAL-IN-2018-003-INTERNET-PENETRATION-MAP-V1.00.png>

Table 2: Average No. of Hours Spent Using Internet per Day

Thailand	9 H 38 M	UAE	7 H 25 M	Russia	6 H 27 M
Philippines	9 H 29 M	India	7 H 09 M	Italy	6 H 08 M
Brazil	8 H 51 M	Singapore	7 H 09 M	N Zealand	5 H 59 M
Indonesia	8 H 32 M	Turkey	6 H 52 M	Canada	5 H 55 M
South Africa	8 H 27 M	Vietnam	6 H 52 M	Poland	5 H 55 M
Malayasia	8 H 17 M	S. Arabia	6 H 45 M	Sweden	5 H 53 M
Mexico	8 H 12 M	Hong Kong	6 H 47 M	UK	5 H 51 M
Argentina	8 H 10 M	Portugal	6 H 31 M	Australia	5 H 34 M
Egypt	7 H 49 M	China	6 H 30 M	Spain	5 H 20 M
Taiwan	7 H 49 M	USA	6 H 30 M	Ireland	5 H 19 M

Source: GLOBALWEBINDEX, Q2 and Q3, 2017; Based on survey on internet users aged 16-64; <https://wearesocial.com/blog/2018/01/global-digital-report-2018>.

Looking at the statistics of 30 countries in terms of average no. of hours spent on internet by the population in the age group of 16-64 years we find an interesting and universally almost uniform statistics that most users on an average spent five hours on net. Noteworthy or even alarming to some extent is that developing economies like Thailand, Philippines, Brazil, Indonesia, South Africa, Mexico and Argentina, people spent more than 8 hours a day on internet. This is an extremely useful statistic based on survey by Globalwebindex talking about shift in the medium for seeking for information, sharing of information and gradually a medium for larger range of trade and exchanges. This is more of an informal and user friendly market where there are no entry barriers. Behavioural analysis is gradually classified as user-base started availing the facility more and more from entertainment, communication medium to business medium.

Digitalization of Payments

According to the World Bank we have around 2 billion adults worldwide who do not hold accounts at formal financial institutions. To reach an economic state which can be called a cashless society we need to have most of the financial transactions being conducted through the transfer of digital information (usually an electronic representation of money) between the transacting parties. It does not mean total disappearance of physical forms of cash or currency. Sweden reports higher percent of transactions done digitally. In four years, experts predict the use of debit cards and mobile payment apps will cause the rate to fall significantly forcing her Central bank to even considering launching a digital currency.² There is another report from Business Today which quotes the figure to be 59 percent. In the US, cash payments are little higher than 45 percent. This exists despite the fact that Apple Pay, Google Wallet and Venmo services originated there. It is important to reflect that as per many banking experts, true financial inclusion is beyond accessing a service digitally to make payments and process transactions. It is more important on having the flexibility to make it happen across an entire ecosystem of banks, merchants and commercial institutions. There is a level of comfort and at the same time a major concern for online privacy. It is important to have some idea about how much data gets passed around behind the scenes and between third parties, before getting sold to other companies. It is a case where you wish to be the early adopters and hurried on to new technology. The sluggishness in progress depends on how much one suspects new technology.

Cost of Transaction

At the International level for small businesses Visa and Mastercard had spiked rates by 25% during 2015-18. As per Canadian New Democratic Party

(NDP) small business critic Glenn Thibeault, “In the case of merchant fees, there is a clear case for public interest regulation to lower prices for consumers, and help struggling small businesses grow,”³ Even at 1.5% on average, credit card interchange fees are higher than those charged by Interac for debit transactions. Under the proposals a merchant will pay an average \$1.50 for each \$100 in goods or services paid for with a credit card. This is too high. There are several fees (annual fees, setup fees, programming fees or fees associated with service calls, transaction fee at a rate of 15 to 75 cents per transaction) charged to merchants that accept credit cards from their clients. This form of payments ranges from 1 to 3 percent of the cost of a transaction. The cost of processing credit cards is ultimately borne by consumers when they pay with credit cards or cash because the merchant will raise prices to recoup costs.⁴ This has a tendency to inflate prices. Besides this consumers also pay processing fees, gateway charges. Now these credit card companies are showing the commitment to freeze the average interchange rate for the next five years so that small businesses grow helping card companies’ healthier revenue. Same 100\$ transactions in debit card by the same company carries a fee of 6¢. In the survey carried out, Mastercard points out that credit card sales carry more risk and offer more convenience. Card network companies operate a network for processing of card payments that link together the services of card issuers, acquirers, and merchants under a single brand. They play the major role in setting up fees or rate charged. These companies do not collect fees directly from merchants. This responsibility is relegated to payment acquirers and ISOs (International Standard Organisations). In short it can be said that Merchant Service Providers (MSPs) act as middlemen between the merchant and the credit issuer in the process and determine the rate.

Table 3: Average Credit Card Processing Fees

MasterCard	1.55-2.6%
Visa	1.43-2.4%
Discover	1.56-2.3%
American Express	2.5-3.5%

Source: <https://bizfluent.com/info-8420804-much-charge-per-transaction-retailers.html>

Table 4⁵: Popular Merchant Service Providers

Flagship Merchant Services	Charge.com	Cayan
Leaders Merchant Services	GotMerchant.com	GoMerchant
Merchant Credit Card	ChasePaymentech	FirstData
The Transaction Group	National Bankcard	iTransact
Credit Card Processing.com	E-Commerce	FreeAuthNet

Source: <https://bizfluent.com/info-8420804-much-charge-per-transaction-retailers.html>

Size of Cash Economy in Different Countries and Perception of Corruption

India is a country where 98 per cent of total economic transactions by volume are done conducted through cash. It will take some time (15 to 20 Years) to reach a magical figure of 50%. Singapore and Netherland are at the top by 60 and 61 percent. UK, Belgium, Canada, Sweden and France have in between 50 to 60 percent. For China the figure is 10% and interestingly figures for Japan, South Korea and Germany stand for 14, 29 and 33 percent respectively. These are advanced economies where banking habits are universal, but the prevalence of cashless transactions is less than 35 percent. Top cashless economies are mentioned below in table (iii). It is also alleged that high scoring countries in corruption (closer to 100) are exporting corruption for their business interest. Corruption inside the country by their citizens is lower for higher the proportion of cashless economic transactions. The most significant exceptions are Japan, Germany and Australia. Overall 68 percent of countries face corruption problem. *Corruption* is an issue that adversely affects the *country's* economy and the credibility of central, state and local government agencies. Not only has it held the economy back from reaching new heights, but rampant *corruption* has stunted India's development. Establishment of institutional law has not displaced reliance on personal connections. Boisot and Child (1992) suggest that many Asian societies are not moving towards market capitalism and rather towards relationship based "network capitalism". The political culture both at the Centre and in the States is all about preferential access to whole range of public goods. Being rich and important you rarely pay. Indian politicians do not take kindly to the administrative reforms which affect their ability to shower favoritism, elite civil services try to maintain status quo and have been largely successful because of political leadership undue dependence on them.

Table 5⁶

Countries	Cashless	Score for Corruption Perception 2015	Countries	Cashless	Score for Corruption Perception 2015
Singapore	61%	85	Australia	35%	79
Netherlands	60%	84	Germany	33%	81
France	59%	70	South Korea	29%	54
Sweden	59%	89	Spain	16%	58
Canada	57%	83	Brazil	15%	38
Belgium	56%	77	Japan	14%	75
United Kingdom	52%	81	China	10%	37
USA	45%	76	India	2%	38

Source: <https://www.transparency.org/cpi2015>

Paths to Financial Inclusion

Merely opening bank accounts is no longer the end goal of ensuring financial inclusion. Poor countries lacking in bank branches can overcome the deficiency through investment in tele infrastructure and seamless co-ordination of different competing commercial banks. In countries like Kenya, Uganda, Rawanda we observe mobile phone penetration yielding to or is increasingly synonymous with financial inclusion courtesy mobile banking. This is because digital banking services allow the poor to process payments and transfers using even simple feature phones. Among the developing and underdeveloped economies like Colombia, Brazil and South Africa have shown faster growth rate in this pursuit. Much poorer countries like Rawanda and Uganda are ranked fifth and seventh in the pace of development in the recent years. Rawanda has invested on technological infrastructure, trying to bring competing banks and telecommunication network providers together into the same payment system.

There is no single path to financial inclusion. A supportive regulatory environment, access to financial institutions, mobile phone penetrations can overcome bottlenecks. We need committed public and private sector stakeholders with the backing of the Government for these citizens with low deposit or areas with no banks to bring faster development. But the presence of banks, their intermediaries or presence of Bank Mitras cannot be ignored for sure in rural India. Naki B Medoza in his “New Report ranks countries on financial inclusion” found observations that financial institutions in Uganda can be intimidating because of non presence and involvement of banks. Regulations of NBFCs are more required. Service charges are higher as none are ready to substitute the role of pure banking experiences or commitments. This is gender discriminatory and worse for women. India is much better off here.

Commitment of India

In India, trade in e-commerce platforms, reach of services of e-commerce companies in rural pockets, logistic facilities have allowed people to enjoy and take advantages of digital platforms. Mostly these people have savings accounts in banks. Digital services are dependent on people’s banking habits and recent familiarization with mobile apps. Demonitisations forced some sections to add these buying behaviours to their purchasing habits. But lack of liquidity in the system (reduction of 86%) has proved to be recessionary for the economy and jobs though digital platforms showed a good growth as an alternative. Although, India is poorly placed in the race of digital payments but government commitments in these areas are praiseworthy. Movement for digital financial

literacy has slowed down in recent times. It is mostly influenced by offers in these platforms rather than as a regular habit.

NPAs being higher have proved to be a dampener for banks to initiate and spread more activities. Beyond the much necessity requirement of mobile coverage, commitments to the existence of national financial inclusion goals, targets or pledges — regulatory environment is very much important. There needs to be an area specific survey to find willingness for adoption including how much of their adult population actually uses traditional and digital financial services and vendors' preparedness for it.

Perception about Banking and Digital Payment System

Merely provision of access to the unbanked population through opening of bank accounts is not going to solve problems. We have experienced most of the no frills accounts have gone dormant. There is a need to improve the situation of demand side also. Not only National objectives are important, we have to look for areas which can improve feasibility of branches, revenue generation of banks. But the most important part of the problems beyond regular dissatisfaction over lack of infrastructure facilities, and low level of technological up gradation, internet connections and financial literacy and awareness is how to come over the negative perceptions towards banking experiences. Survey says that this is the prime reason why so many in the developing world are excluded from formal banking institutions. Other fundamental problems are low disposable incomes, high transaction costs in addition to the inadequate branch banks.

Conclusion

For India, it is really difficult to integrate twin objectives of financial inclusion with going cashless. Forced adoption may not work beyond a point. Forced cashless economy has really found resistances in the present situations of Indian economy in many quarters. We need more than current set of existing policies of financial inclusion to solve the problem of financial exclusion. Besides infrastructural deficiency, financial illiteracy and transaction fees, e-crimes are reducing the pace of development. Even the payment platforms can be partly blamed. Whereas credit cards and e-wallets are preferred modes, debit cards have lesser options to exercise in India. Penetration of Rupay cards and advertisements or promotions has not been visible in the last three to four years.

We cannot ignore the infrastructural bottlenecks if we wish to integrate the case for cashless economy and financial inclusion. Any move towards cashless economy, particularly in the rural areas may end up encouraging E-crimes which can be devastating. Given that people in states like Odisha, West Bengal and

Assam have recently suffered Chit Fund Scams and with significant number of them being account holders; we cannot ignore recurrence of likely events. The challenge is that without solutions to these issues by the regulators, it is impossible to advocate cashless, digital payment systems for speedier financial inclusion.

Jeffrey Bower, a former digital finance specialist with the United Nations-based 'Better than Cash Alliance' has set the standards higher stating "If financial inclusion is having an account at one institution with no freedom to leave the closed loop and compare products and services elsewhere — that's not real inclusion."⁷ Now for India, we need top state intermediate targets towards this goal. For achieving the most important requirement is to align our small traders to ride the advantages. Though we have reports of small traders showing some courage towards it, but tax avoidance remain as a key issue. After implementation of GST, this is yet to become smoother. Another issue is that small retailers don't have enough resources to invest in electronic payment infrastructure; there is also vested interest in not moving towards cashless economy. Tax officers need to be oriented towards encouraging the businesses first, followed up by paying the taxes. It is essential that every Government should try to lower excessive credit card acceptance fees for vendors. This can increase the market size; reduce costs for merchants and increase confidence of both merchants and consumers. These commitments can ultimately result in lower prices for consumers. Nevertheless this has a brighter future and has potential to add 0.5 to 1% growth to GDP as more and more people move towards digital payments.

Notes

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