

**Measures For Promoting Digital Payments & Creation of Less Cash Economy After Demonetization**

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**ABSTRACT**

Digital Economy is one of 10 central themes for Budget-2017 for establishing speed, accountability and transparency in the system. In the aftermath of the cancellation of the legal tender character of old Rs.500 and Rs.1,000 notes, there has been a surge in the digital transactions through use of credit/debit cards and mobile phone applications/e-wallets etc. With an aim to promote Digital Payments and converting India to a less-cash society, a large number of policy and implementation initiatives are being taken by the Government for its procurement, service offering and disbursements and also the Government has been taking several measures in consultation with the various stakeholders to incentivise greater adoption of digital payments by large sections of the society. This paper made an attempt to provide the various initiatives introduced by the Indian Government to promote the digital payments especially focusing on after demonetization at one place.

**Keywords:** Digital Payments, Less Cash Economy, Government, Initiatives, Benefits

**1. INTRODUCTION**

Cashless Economy is when the flow of cash within an economy is non-existent and all transactions have to be through electronic channels such as direct debit, credit and debit cards, electronic clearing, and payment systems such as Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS) etc. in India. There are several reasons as to why Indians prefer Cash over electronic transactions. Firstly, lack of access to banking leaves no option other than cash for a large fraction of the population. Secondly, since, there are no extra transaction costs in Cash payments, it affects the consumer behavior. Electronic payments had been so far unviable for small value transactions but things are changing fast. Thirdly, Cash provides flexibility and simplicity as a transaction needs only moving from one hand to another, there are no worries about crashing of computers and losing the transactions. Fourthly, India has a large unorganized sector with overwhelming majority of retailers, suppliers and service providers. They have neither the infrastructure to offer card-based transactions nor the inclination to encourage consumers to pay by credit cards or debit cards. Lastly, the lack of education / awareness among consumers regarding use of cards.

Reducing Indian economy's dependence on cash is desirable for a variety of reasons. India has one of the highest cash to gross domestic product ratios in the world, and lubricating economic activity with paper has costs. The cashless economy has its own advantages. The transaction costs are coming down and will further go down. Once a substantial part of transactions are cashless, it would bring down the cost of printing, managing and moving money around. Further, the cashless economy automatically solves the problems of cash out on long holidays, risk of carrying currency notes etc. Further, the lesser use of cash strangulates the grey economy, prevents money laundering

and increase tax compliance. Increased tax base would result in greater revenue for state and greater amount available to fund the welfare programmes. Lastly, Cash being material, can be prevented from circulation but electronic channels alleviate this friction and increase circulation of currency.

The government on its part is working at various levels to reduce the dependence on cash. For example one of the initial steps is 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. RBI has also issued licences to open new-age small finance banks and payments banks which are expected to give a push to financial inclusion and bring innovative banking solutions. Demonetization rapidly changed the scope and the way of digital payments.

The data for the study has been collected from the secondary sources as the study focused on the various Government initiatives which promote the India to convert into digital India. Information has been gathered from various Government websites, official websites of the products and programmes, related articles in the internet and the news papers.

## **GOVERNMENT INITIATIVES TO PROMOTE DIGITAL PAYMENTS AFTER DEMONETIZATION**

### **DIGISHALA – Educational TV Channel for Digital Payments on DD Free Dish**

The DigiShala is an education and non-commercial TV channel Broadcasted nationally on DD Free Dish DTH service without any subscription fees. It also available on channel no 2032 on Dish TV (of Zee Group). The aims of the Digishala are:

- To Impart education related to the digital payment ecosystem, its tools, benefits and processes
- To Inform and educate citizens about Digital India - cashless, faceless and paperless
- To Encourage citizens especially in rural and semi urban areas to use digital payments as well as other products and services offered by Digital India

Presently Door Darshan (DD) Free Dish reaches to around 2 to 2.5 crore families, mostly in rural areas and people from poor background. Range of educational programmes on Digital India in multiple regional languages sessions with focusing on step by step demos of making digital payments using UPI, USSD, Aadhaar, e-Wallets, cards etc, Talk shows and panel discussions with experts, Case studies on business transformation using digital payments and Information about products and services under the Digital India programme

### **Digital Finance for Rural India: Creating Awareness and Access through Common Service Centres (CSCs)**

Ministry of Electronics and IT (MeitY) has launched a new scheme entitled “Digital Finance for Rural India: Creating Awareness and Access through Common Service Centres (CSCs)” under Digital Saksharta Abhiyan (DISHA) with objectives to enable the CSCs to become Digital Financial Hubs, by hosting awareness sessions on government policies and digital finance options available for rural citizens as well as enabling various mechanism of digital financial services such as IMPS, UPI, Bank PoS machines etc. with an outlay of ₹ 65.625 crore and establishment of 2 lakhs Common Service Centres (CSCs) to provide capacity building, awareness access for digital

payments methods to around 1 crore rural citizens and 25 lakhs merchants across India. Each CSC would reach out to 40 households in the catchment area, covering one person from each household. Apart from rural citizens, each CSC would also target 10 Merchants per Panchayat to facilitate them in getting POS machines or digital payment mechanism.

## **Vittiya Saksharta Abhiyan**

Ministry of Human Resource Development (MHRD) views the institutions of higher education in the country, faculty members and students to take the lead and act as engines of the transformational shift. The purpose of the 'Vittiya Saksharta Abhiyan' is to actively engage the youth/ students of Higher Education Institutions to encourage and motivate all payers and payees to use a digitally enabled cashless economic system for transfer of funds. MHRD opined that the best way of leadership is to lead by example and instructed that all heads of higher educational institutions should plan for a cashless campus, within a limited timeframe, for all transactions within the campus. The faculty, staff and students, whom refer to as engines of change, need to dispel the commonly held belief that digital transactions are complex and necessarily require a smart phone and internet connectivity. They need to further educate their family members and people in their immediate surroundings and motivate them for digital transactions. NCC/NSS volunteers of an institute may take up a major market and interact with shop owners, including vendors, and their associations with an objective of developing a cashless market focusing on each point of sale.

## **Guidelines for the Electronic Payment & Receipts for Cashless Services within the Government**

Ministry of Electronics and Information Technology (MeitY), Government of India envisages Paperless, Cashless and Faceless services across the country, especially in rural and remote parts of India. MeitY further envisages common e-Governance infrastructure that will offer end-to-end transactional experience for a citizen, businesses as well as internal government functions, which includes accessing various services and making payments and receipts through electronic modes. The Apex Committee on Digital India has recommended a targeted and time bound approach to implement digital payments for citizens across all the e-Services of Government Ministries and Departments. Against this backdrop, MeitY has notified Guideline for Electronic Payments and Receipts (EPR), intended for Central Public Sector Undertakings, State Governments, Govt. of India Autonomous Bodies, and Municipalities for expeditiously implementing appropriate mechanism to enable electronic payments and receipts. The objective of this guideline is to provide guidelines for Departments to:

- Assess various services involving payments and receipts by types of services and level of electronic payment enablement
- Provide actionable instructions for universal adoption of electronic payment modes for each type of service through various payment channels
- Provide guidelines on engagement with various payment service providers

The Guidelines for Electronic Payments and Receipts (EPR) will be implemented through assessment of the department's overall status of services offered and maintain a repository of services offered by departments. This repository will be used for measuring and tracking of adoption level electronic payments across departments in India. Furthermore, information of

departments requiring payments integration will be shared with Government and private sector Payment Systems providers (PSPs) for enablement of Electronic modes and channels of payments.

## **Nil Excise Duty on Pos Devices and All Goods for Manufacturer of PoS Devices**

- The Central Government in its notification no. 35/2016 - Central Excise on 28<sup>th</sup> Nov 2016 made the amendments in the notification of the Government of India in the Ministry of Finance (Department of Revenue) No. 12/2012-Central Excise, dated the 17th March, 2012. This amendment has exempted the excise duty on PoS machines and other all goods required for manufacturing PoS machines. Miniaturised POS card reader for m-POS (other than mobile phones or tablet computers), micro ATM standards version 1.5.1, Finger Print Readers / Scanners and Iris Scanners and on their parts and components for manufacture of such devices are exempted from BCD, Excise/CV duty and SAD.

## **Rationalisation of customer charges for Immediate Payment Service (IMPS), Unified Payment Interface (UPI) & Unstructured Supplementary Service Data(USSD)**

In order to further promote digital and card payments, Department of Financial Services, Ministry of Finance issues direction in public interest. The directive under Section 10(2) with Section 18 of Payment and Settlement Systems Act 2007, (Act 51 of 2007) issued following guidelines.

- All participating banks and Prepaid Payment Instrument (PPI) issuers shall not levy any charges on customers for transactions upto ₹ 1000 settled on the Immediate Payment Service (IMPS), USSD-based \*99# and Unified Payment Interface (UPI) systems. These measures are effected from January 1, 2017 and shall be applicable till March 31, 2017. In the intervening period, the Reserve Bank of India will facilitate a review of the charges under the aforesaid channels by the concerned stakeholders.
- RBI has also rationalized the Merchant Discount Rate (MDR) for debit card transactions up to Rs. 2000/- with effect from January 1, 2017 till March 31, 2017.

## **AADHAR Enabled Payment Systems (AEPS)**

**AEPS** is a bank led model which allows online interoperable financial transaction at PoS (Point of Sale / Micro ATM) through the Business Correspondent (BC)/Bank Mitra of any bank using the Aadhaar authentication.

The four Aadhaar enabled basic types of banking transactions are as follows:-

- Balance Enquiry
- Cash Withdrawal
- Cash Deposit
- Aadhaar to Aadhaar Funds Transfer

The only inputs required for a customer to do a transaction under this scenario are:-

- IIN (Identifying the Bank to which the customer is associated)
- Aadhaar Number
- Fingerprint captured during their enrollment

**Benefit of Lower Rate of Income Tax on Digital Turnover for Small Businesses**

The benefit of lower rate of Income tax on digital turnover for small businesses up to a turnover of Rs.2,00,000,00 (Rupees Two Crore), announced by the Government on 19<sup>th</sup> Dec 2016 under Section 44AD of the Incometax Act, 1961 is a huge benefit given to businessmen for promoting digital/banking transactions.

**The following table explains the benefit obtained by traders and small businesses in 3 different scenarios:**

<b>Particulars</b>	<b>100% Cash Turnover (Rs.)</b>	<b>60% Digital Turnover (Rs.)</b>	<b>100% Digital Turnover (Rs.)</b>
Total Turnover	2 Crore	2 Core	2 Crore
Cash Turnover	2 Crore	0.80 Crore	NIL
Digital Turnover	NIL	1.2 Crore	2 Crore
Profit on Cash Turnover @ 8%	16 Lakh	6.40 Lakh	NIL
Profit on Digital turnover @ 6%	NIL	7.20 Lakh	12 Lakh
Total Profit	16 Lakh	13.60 Lakh	12 Lakh
Deduction u/s 80C	1.5 Lakh	1.5 Lakh	1.5 Lakh
Taxable Income	14.50 Lakh	12.10 Lakh	10.50 Lakh
Tax Payable	2,67,800	1,93,640	1,44,200
Tax Saving	NIL	74,160	1,23,600

**LPG Customers to Now Get a Discount for On-Line Payment of LPG Refill Oil**

Under the aegis of Ministry of Petroleum & Natural Gas, it the endeavour of all Oil Marketing Companies aim to encourage consumers to increasingly shift to such payment modes through digital platforms to achieve the objective of no-cash or less-cash based transactions. Ministry of Petroleum & Natural Gas On 3<sup>rd</sup> January 2017 stated that the Oil Marketing Companies, viz IndianOil, BPCL & HPCL are offering an upfront discount of Rs 5/- on every LPG refill to all LPG customers who will book and pay for their LPG cylinders online. Customers can make payment through existing online modes i.e net banking, credit & debit cards at the time of web-booking their refills. Customers will get the discounted amount displayed on their screens – i.e. net amount i.e refill RSP minus (-) incentive amount of Rs.5/- which they need to pay for their refill transactions. The net discounted amount will also be shown on the cash memo accompanying the home-delivery of the LPG cylinder. The incentive will encourage more and more LPG consumers to go for cashless mode transactions

**14444 Toll-Free Helpline for Digital Payments**

The Government of India, in collaboration with Telecom and IT industry, has launched a toll-free helpline - 14444 - to address consumer queries on digital payments on 5th Jan 2017. The helpline will address questions regarding various platforms, including the newly-launched Bharat Interface for Money (BHIM), e-Wallets, Aadhaar Enabled Payment System (AEPS), RuPay Card and USSD. The helpline '14444' is available in North as well as Eastern part of the country in English and Hindi and will soon be extended pan India, and in other languages.

## **UCKY Grahak Yojana and Digi-धन Vyapar Yojana**

NITI Aayog launched the schemes Lucky Grahak Yojana and the Digi-धन Vyapar Yojana to give cash awards to consumers and merchants who utilize digital payment instruments for personal consumption expenditures. The primary aim of these schemes is to incentivize digital transactions, so that electronic payments are adopted by all sections of the society, especially the poor and the middle class. The scheme became operational with the first draw on 25<sup>th</sup> December, 2016 (as a Christmas gift to the nation) leading up to a Mega Draw on Babasaheb Ambedkar Jayanti on 14<sup>th</sup> April 2017.

It comprises of two major components, one for the Consumers and the other for the Merchants:

### ➤ **Lucky Grahak Yojana [Consumers]:**

- Daily reward of Rs 1000 to be given to 15,000 lucky Consumers for a period of 100 days;
- Weekly prizes worth Rs 1 lakh, Rs 10,000 and Rs. 5000 for Consumers who use the alternate modes of digital payments.
- This includes all forms of transactions viz. UPI, USSD, AEPS and RuPay Cards but will for the time being exclude transactions through Private Credit Cards and Digital Wallets.

### ➤ **Digi-धन Vyapar Yojana[ Merchants]:**

- Prizes for Merchants for all digital transactions conducted at Merchant establishments
- Weekly prizes worth Rs. 50,000, Rs 5,000 and Rs. 2,500

### ➤ **Mega Draw on 14th of April – Ambedkar Jayanti**

- 3 Mega Prizes for consumers worth Rs 1 cr, 50 lakh, 25 lakh for digital transactions between 8<sup>th</sup> November, 2016 to 13<sup>th</sup> April, 2017 to be announced on 14<sup>th</sup> April, 2017
- 3 Mega Prizes for merchants worth Rs 50 lakhs, 25 lakh, 12 lakh for digital transactions between 8<sup>th</sup> November, 2016 to 13<sup>th</sup> April, 2017 to be announced on 14<sup>th</sup> April, 2017

To ensure that the focus of the scheme is on small transactions (entered into by common people), incentives shall be restricted to transactions within the range of Rs 50 and Rs 3000. All transactions between consumers and merchants; consumers and government agencies and all AEPS transactions will be considered for the incentive scheme.

## **Bharat Interface for Money (BHIM)**

BHIM was launched by Hon'ble Prime Minister on 30<sup>th</sup> Dec 2016 and within 10 days, the BHIM app had 1 crore downloads from Android Play Store and over 2 million transactions across the UPI (Unified Payment Interface) and USSD (Unstructured Supplementary Service Data) platforms. The main purpose of BHIM App is to provide uniform experience of UPI and also to support those banks who have not developed any UPI app for their customers. Bharat Interface for Money

(BHIM) provides fast, secure, reliable medium to make digital payments through your mobile phone using UPI (Unified Payment Interface) platform via Mobile App and USSD (Unstructured Supplementary Service Data) platform via \*99# service.

BHIM is interoperable with other Unified Payment Interface (UPI) applications, and bank accounts. BHIM is developed by the National Payment Corporation of India (NPCI), a not-for-profit company for providing retail payment systems in the country under guidance from Reserve Bank of India. BHIM has been designed for quick and secure user on-boarding, sports a best-in-class and intuitive user interface and makes digital transactions seamless. BHIM has been a huge boon for merchants who can now accept payments directly into their bank accounts. All users, including merchants, get a ready to use VPA (virtual payment address) and an exclusive, ready-to-print QR code upon sign-up.

The services offered in BHIM are Send / Receive Money, Check Balance, Custom Payment Address and QR Code. The Government is intended to launch two new schemes to promote the usage of BHIM; these are, Referral Bonus Scheme for individuals and a Cashback Scheme for merchants. Amount limits are Maximum of Rs. 10,000 per transaction and Rs. 20,000 within 24 hours. The limit for USSD has currently been set at ₹5,000 per day.

## **OTHERS**

- The Government is organizing a state-wide awareness campaign on digital payment at the grassroots level. The government plans to engage students having smart phone as volunteers under the drive by paying them commission and also plan to formulate a multi-pronged strategy for digital payment awareness. Apart from common service centres, small savings agents and bank mitras, the government will engage students as volunteers/ trainers. The volunteers will register people, who are not using digital payments, and train them. They will get their commission after successful first digital transaction by persons trained by them. It will be tracked thorough a management information system mechanism.
- Planning to initiate steps to mandate petrol pumps, fertilizer depots, municipalities, Block offices, road transport offices, universities, colleges, hospitals and other institutions to have facilities for digital payments, including BHIM App.
- Banks have targeted to introduce additional ₹10 lakh new POS terminals by March 2017. They will be encouraged to introduce ₹ 20 lakh Aadhar based POS by September 2017.
- Proposed to create a Payments Regulatory Board in the Reserve Bank of India by replacing the existing Board for Regulation and Supervision of Payment and Settlement Systems.
- Planning to set up a mission with a target of 2,500 crore digital transactions for 2017-18 through UPI, USSD, Aadhar Pay, IMPS and debit cards.
- A proposal to mandate all Government receipts through digital means, beyond a prescribed limit, is under consideration.
- Under scheme of presumptive income for small and medium tax payers whose turnover is upto ₹ 2 crores, the present, 8% of their turnover which is counted as presumptive income is reduced to 6% in respect of turnover which is by non-cash means. No transaction above ₹ 3 lakh would be permitted in cash subject to certain exceptions
- Cash expenditure allowable as deduction, both for revenue as well as capital expenditure limited to Rs 10,000. Similarly, the limit of cash donation which can be received by a charitable trust is reduced from Rs10,000/- to Rs 2000/-.
- Increased digital transactions will enable small and micro enterprises to access formal credit. Government would like to encourage SIDBI to refinance credit institutions which

provide unsecured loans, at reasonable interest rates, to borrowers based on their transaction history.

- The Government focused to strengthen digital payment infrastructure and grievance handling mechanisms. The focus would be on rural and semi urban areas through Post Offices, Fair Price Shops and Banking Correspondents.
- The Government would like to consider and work with various stakeholders for early implementation of the interim recommendations of the Committee of Chief Ministers on digital transactions.

## **2. SUGGESTIONS**

Enabling access to banking is a pre requisite to promote cashless economy. So the success of initiatives such as Jan Dhan accounts linked to Aadhaar data is very important. A robust payments mechanism to settle a digital transaction is also needed, The expansion of telecom and smart phones would provide a digital shift to the economy in near future. The private sector the driver of this change. Government is also mulling to provide incentives for electronic payments for example waiver of tax when electronic settlements are used. The private sector has to come forward to drive the change. Apart from this government should also give incentives for electronic transactions.

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. 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 needs to reduce its unusually high dependence on cash to bring in much needed transparency and efficiency in the system.

However 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 revamp the tax administration, as more than taxes, small businesses fear tax inspectors.

## **3. CONCLUSION**



A large part of the population is still outside the banking net and not in a position to reduce its dependence on cash. According to a 2015 report by PricewaterhouseCoopers, 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. 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. 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.

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