A Cashless Future

The Statesman
Nov 23 2016

The demonetisation of the Rs 500 and Rs 1000 notes was indeed a surgical strike on the black money that would entirely change our economic landscape and correct the distortions significantly. The resultant pain is associated with any surgery, but nowhere in the world have reforms been effected without the accompanying pain. But this reform can lead to a much bigger bout of reform by nudging India towards a cashless economy. If we are determined, in a few years' time, we can transform ourselves into a cashless society.

Bank notes were first introduced in Sweden way back in 1661. Three and a half centuries later, today most cities in Sweden don't accept any cash anymore. Public transport, small businesses, museums and even churches now accept only electronic payments through card readers or digital wallets. Even newspapers can be bought from street vendors using a card. Three out of four of Sweden's largest banks are phasing out the manual handling of cash in their branches. As per the statistics of the Bank for International Settlements, an umbrella organization for the world's central banks, the cash-GDP ratio in Sweden is down to only 3 percent, compared to an average of 9 percent in Eurozone, 7 percent in the US and 12 percent in India. The number of bank robberies in Sweden had plunged from 110 in 2008 to only 5 in 2012, because most Swedish banks simply don't handle cash anymore.

Other Scandinavian countries are also not far behind. Most stores in Denmark had dumped their cash registers from January this year; only essential services, hospitals, pharmacies and post offices, still accept cash until the time cashless transaction becomes a law. Norway is also making a similar transition. Scandinavians today rely on cash for less than 6% of all their payments, as against an estimated 47% in US. They are discovering and benefiting from the advantages of reduced handling and transport costs, increased security and a drop in cash-robbery cases. Card frauds have increased though, the total card frauds in Europe to hit a record value of $1.4 billion in 2013, 8% more than in 2012.

Many other countries are also making a move towards a cashless society across all continents. Canada, where electronic payments constitute 70% of total payments as against the world average of 40%, has stopped printing new currency notes. By introducing a preferential VAT treatment for consumers who pay with cards, South Korea has significantly reduced the share of cash from 40% to only 20% in 10 years. Their central bank, Bank of Korea, is issuing less and less currency every year, and is moving towards a planned 'cashless society' by 2020. Australia, Singapore and even Nigeria are thinking of a cashless future.

In Africa, Kenyans are increasingly flocking to mobile money M-Pesa which has already registered 15 million subscribers in a population of 47 million. Even in Somaliland, an autonomous region of Somalia, one of Africa's poorest countries, a mobile revolution has created an informal electronic banking system with more efficiency and convenience than in many developed countries. Cash is disappearing fast and credit cards are becoming redundant because even street vendors accept payments by mobile phones. A survey in 2012 found that the average customer makes 34 transactions per month on their mobile phones, higher than in almost every other country.

These are but a few examples of countries across the world which are moving resolutely towards cashless regimes and whose number is increasing because of the potential benefits. According to a McKinsey report, a cashless society has the potential to cut costs equivalent up to 1.1 percent of GDP. The report further states that in countries where total cash payments constitute below 50 percent of total payments, the shadow economy can grow only up to 12 percent of GDP, but where cash component exceeds 80 percent of total payments, the shadow economy can surge up to 32 percent of GDP. Apart from restricting the growth of underground economy, becoming cashless may also help in the monetary policy domain. To stimulate the economy by encouraging spending, some countries may adopt minus interest rates, but it will not work in a cash economy. When cash becomes electronic, people will have to spend it to avoid losses from minus interest rates.

Cashless transaction is not an invention of the modern times; in fact, the origin of cashless transaction can be traced to medieval times. Ever since the birth of Christianity in Rome, every devout Christian had wanted to visit Jerusalem, the Holy City, at least once in their lives. Even at the best of times, the journey from Europe to Jerusalem was hazardous, but the emergence of Islam in Europe increased the hazards manifolds. Once Jerusalem had fallen to the Muslims in 637 AD, Christian pilgrims began to be harassed not only by the Muslim fanatics who massacred the infidels, but also by groups of ruthless bandits en route.

Starting in 1009, the Crusades spilled blood in the name of God for the next two centuries. In 1099, Christians recaptured Jerusalem and the Holy City would remain under their control for the next 130 years. In 1119, out of the Crusades emerged a most mysterious order of the Knights Templars, an army of monks superbly trained in warfare, to provide protection to pilgrims going to Jerusalem. They were fierce and fearless, willing to die for the Scriptures, and were among the most feared knights of their times. By 1120, they had entrenched themselves in Jerusalem, at the site of the Biblical Temple of Solomon, and had dug the area around to discover many holy relics and riches, as the legend goes, including even the elusive Holy Grail. As the Crusades raged on, Templars attracted recruits from the wealthiest families of Europe and became immensely powerful and rich, not only from the wartime loots but also from donations of land and gold from nobles and kings of Europe. They acquired wealth beyond imagination, owned vast tracts of land, hundreds of castles and a full fleet of ships that traded goods and pilgrims across the Mediterranean. They became the first well-equipped standing army of Europe since the fall of the Roman Empire.

From 1150, they had, however, stopped guarding the road to Jerusalem physically, finding instead a much better and efficient way to protect the cash and valuables of the pilgrims, which attracted the bandits and imperilled their journey. They devised an ingenious arrangement by which pilgrims deposited a lump-sum amount in advance with the Templar Commandery nearest their homes and were given paper scrolls or vouchers in exchange that recorded in ciphers the amounts deposited. On their way to Jerusalem, at places where such commanderies were available- there were quite a few - they could draw cash against the note to defray expenditure incurred on the way, by paying a fee for the services rendered. This was the origin of the modern banking system and of the credit cards and travellers' cheques of modern times.

Templars gradually became bankers to the European monarchs, and that brought their ultimate end. In 1307, Friday the 13th October, hundreds of Templars were arrested by King Philip IV of France who badly wanted their enormous treasure for his kingdom impoverished by his wars. They were charged with unspeakable crimes including desecration of the holy relics, were tortured by Inquisition and ultimately put to slow death by burning. But the treasures were never found, and many Templars had also escaped unscathed to the safety of Swiss villages deep in the Alps. Around this time in Switzerland, the farming communities were seen gradually transforming themselves into banking communities whose operations were covered by secrecy laws that replicated the secrecy surrounding the Knights Templars. They also proved suddenly to be transformed into a formidable fighting force, taking on foreign invaders successfully, unlike farmers elsewhere. It may not have been a mere coincidence that the Swiss flag incorporates the Templar Cross.

The cashless system was then devised to save the pilgrims from bandits. Today it can save us from a much larger bandit, the black economy. India has already taken the plunge in this. Like in many European countries, high value cash transactions are disallowed in India, making it easier to track financial transactions and collect tax, and also curb high value illegal transactions.

A recent joint report by Google and the Boston Consulting Group highlighted that the rise in smartphone penetration and adoption of mobile wallets by small offline merchants will increase the size of the digital payments market in India nearly tenfolds to $500 billion, or 15% of the country's GDP by 2020, when India's internet user base will reach 500 million. JAM (Jan Dhan-Aadhaar-Mobile) and United Payments Interface, Digital India and mobile wallets have already laid the foundations, and the recent demonetization can further facilitate the movement towards a cashless India. With a firm resolve, we can even become the first cashless country in the world.