

A Study on Factors Leading to Gradual Weakening of Paper Currency Usage in India

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Rajani Balaji

Department of Commerce

Padmashree Institute of Management and Sciences, India

***Karthik P**

Bangalore University, Bangalore, Karnataka, India

**For correspondence (e-mail: karthik.pgowda7@gmail.com)*

Abstract

Globally we are witnessing a rapid proliferation in new electronic forms of payment owing to rapid developments in digitalization and data processing. The movement towards a cashless society that started very slowly through cheques, debit and credit card, followed by numerous steps adopted by banks introducing netbanking facilities with NEFT, IMPS, RTGS today the evolution is accelerated with the advent of robust payment mechanisms such as mobile-based bank apps and other payment applications and mobile wallets. With these newer payment modes becoming more accessible, convenient, and cost-efficient, there is widespread adoption of cashless means in developing and emerging economies. The Indian government's demonetization initiative made 86% of cash in circulation declared as illegal tender overnight on November 8, 2016. The much recent global pandemic of 2020 filled the public with fear of bacterial, fungal, and parasitic contamination of currency notes. These factors have further lead to the decline in the usages of paper currency. This paper explores some of the issues associated with the waning of paper currency usage in India.

Keywords: Cashless economy, Paper currency, Digital payments

Introduction

Money has taken many forms in history –but has had three consistent functions: store of value, unit of account, and medium of exchange. The characteristics of money- Durability, Portability, Divisibility, Uniformity, Limited supply, and Acceptability have impacted the usage propensity of several forms of money.

Money in physical form is currency and coins. For centuries physical currency has been the most common and extensively accepted payment system owing to its easiness and robustness. For the customer, physical currency provides secrecy in transactions, emotional feel of affluence, psychological comfort of having greater control over financial planning and guard from cyber threats or financial institution failures and requires no supporting technology. For Businesses, the physical currency is very important, with most transactions based on the exchange of physical form of legal tender.

But, in the last few decades, there has been an upsurge of innovations that have brought in a shift in the usage of physical money. The technological progress in information processing, computing, telecommunication, and digitalization, made the modern electronic forms of payment accessible, beneficial, easy, and cost-efficient. Credit and debit cards have for some time now been a long-established payment option used as an alternative to physical currency. Internet banking that uses core banking and payments systems to make electronic payments more affordable and more available is also replacing physical currency to some extent. Newer mobile-based payment technologies like mobile banking, mobile payment apps like Google pay, PayTM, etc., and Mobile wallets like Airtel Money offer alternative options that are convenient and cost-effective. Mobile payments have validated their unparalleled potential to modify the way we transact. The global payment landscape is continuously evolving due to this convergence and snowballing technological breakthroughs. The revolution in the payments landscape is driven by convincing value propositions, conducive infrastructure, supportive regulations, and next-generation technologies. Approving government strategies (incentives, subsidies, and initiatives) for merchants, consumers, and payment providers and availability of the right infrastructure are enabling a resilient digital payment environment. The intensifying universality of smart devices and successful online retail commerce in market drives the hurried adoption of real-time payments. Gradually, more and more consumers are turning to their smartphones to make purchases also pay for shopping, pay bills, and transfer funds using the same device.

The cashless revolution is accredited to a conglomerate that includes infrastructure, evolving customer expectations, progressive government initiatives, and technological developments.

Objectives of the Study

- To understand factors that have led to declining the usage of physical money.
- To re-examine the dominance once rejoyiced by physical money.

Research Methodology

This is a descriptive research paper based on secondary data. Data have been found on various websites, Reports of RBI, KPMG, IMAI and various others. The data was also collected from journals and articles published in newspaper.

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Study Limitations

The potential of Cryptocurrency, such as Bitcoin, is considerably discussed worldwide to affect the usage of physical money and traditional systems of payments is not explored in the study. The study is focused from the viewpoint of public.

Factors Attributing to the Weakening of Cash Usage

Internationally noncash transaction volumes have tremendously increased, leading to a modification in the dynamic forces of the payment industry, which is observing a shift in favor of cashless transactions. This encouraging collaborative atmosphere and vigor are working towards a cashless economy and cashless society.

Evolutions within Banks Industry

Changing Role of Banks: Adoption of numerous noncash payment systems has redefined the traditional role of banks. The following mix of nascent, emerging and mature approaches adopted by banks, have each contributed towards being a cashless society, enquiry, investments, paying bills through the use of mobile phones

The bank's efforts to provide an alternative to physical currency, which started with the introduction of cheques, were followed by the introduction of electronic clearing services, electronic fund transfer, and issuance of debit and credit cards. Banks introduced new secure fund settlement systems— Real Time Gross Settlement (RTGS) introduced in 2004, currently stands at 6 lakh transactions of Rs.4.17 Crores value per day, National Electronic Fund Transfer (NEFT) introduced in 2005 and Immediate Payment Services (IMPS) were introduced in 2010. With these efforts, banks saw a shift in traffic from branch banking to the internet and mobile banking. Various banking transactions like fund transfer, investments, paying bills, etc., are all done by the customer using a smartphone. Banks with the competitive threat from non-banking players are further investing in banking technology to offer better banking solutions to customers.

New Players and Business Models

While Banks, the most crucial part of the traditional financial domain, led the payments industry once, today we have new startups, spinoffs, and partnerships that are introducing other options in the payments sector that is real-time, secure, and convenient. Many Financial Technological (FinTechs) start-ups are launched with the goal to improve and automate the delivery and use of financial services. The FinTech focus on mobile banking, information processing, data analytics, and decentralization of access, creating opportunities for banks to interact in unprecedented ways.

Government Initiatives

The Indian government has taken up numerous initiatives to curtail tax evasion, eased by the unidentifiable and difficult-to-trace characteristic of physical currency transactions that ultimately decrease government revenue. The government of India has undertaken numerous steps to promote less cash economy through BHIM UPI, Aadhaar Pay, DigiVaarta was started to increase awareness and usage of DIGIDhan and BHIM app; DIGIshalawas broadcasted on DD channel to promote digital payments, DigiDhan Abhiyan campaign planned to endorse cashless transaction. The Government has also introduced discounts, rebates, and other promotional offers for digital transactions at Indian Railways and Highway Tolls to encourage faster adoption of cashless modes.

Demonetization

The demonetization of big currency notes by the Indian Government created a longed cash dearth that forced the common man to adopt alternative payments. That pushed to the quicker acceptance of new entrants like GPay and PayTM in the payment industry. Giving a thrust for digital payments was one of the specified objectives of demonetization. There was an abrupt and sharp spike in digital means in Nov–Dec 2016 due to shortage of cash. The debit card POS transactions have doubled the size of value before demonetization. The mobile wallet transactions picked up immediately after demonetization, followed by a dip in mid-2017 due to easing cash shortages. There was again a sharp rise after that. By April 2018, the volume of digital payments had doubled. Furthermore, digital payment dimensions are also getting a boost through the Government's initiatives like 'Cashless India'

2020 Pandemic

Paper currency is unclean and unhygienic. It is a spreader of disease as it goes from unwashed hand to unwashed hand. A study conducted on the 'Bacterial contamination of paper currency,' wherein one-dollar currency notes were tested for bacterial contamination. Pathogenic or potentially pathogenic organisms were isolated from 94% of the bills. These results suggest a high rate of bacterial contamination. Mastercard conducted a study 'The Dirty Cash, Dirty Habit' to understand the common man's attitudes towards cash. The study discovered that 75% of the respondents felt they had to be careful while handling cash, 64% of the respondents felt cash was germ-infested or dirty, 83% of the respondents felt cash had a lot of bacteria and 57% of respondents believed notes and coins to be the least hygienic item polled in the study. Mr. Basavaraja K.G, Mr. Sridhara PN, and Mr. Suresh K conducted a Study of bacterial, fungal, and parasitic contamination of currency notes in circulation. A total of 100 currency notes of various denominations in circulation was randomly studied for bacterial, fungal, and protozoal contamination. All except four samples yielded one or more bacteria.

Cash on Delivery (COD), which was one of the payment options for online transactions pre-covid times, saw a steep dip in the early days of Pandemic as consumers feared physical contact with physical money. While Hygiene was the primary reason for quick acceptance of new payment forms, other factors like convenience, ease of use, acceptance, and incentives have given impetus to this adoption. These factors will likely continue to become the default behavior of consumers in the long run.

Benefits for Business

The shift of business models from brick and mortar to e-commerce and m-commerce has reduced in-person transactions and increased online transactions. With the increase in online purchases, need for shift to online methods of payment also improved. The increasing universality of smart devices and booming online retail commerce in markets drive the swift adoption of real-time payments. Consumers' acceptance of e-commerce and m-commerce though slow, has been steadily increasing. For the consumers who have accepted online purchases, the move to online payments was much smoother. Along with payment guarantees and lesser transaction fees, businesses consider real-time systems to improve their cash flow management, lessen fraud activity and deliver incremental value to customers.

Swift Consumer Migration

The momentum behind immediate payments is now unstoppable. The consumer today expects transactions to take place immediately through their smart phones and smart devices. The rising consumer demand for real-time transactions has led to quicker adoption of instant payment. A segment of customers today is comfortable making purchases online and making online payments, this will likely continue to become the default behavior of consumers in the long run. The financial services sector will continue to witness a massive shift in favor of digital, with consumers migrating to immediate payments.

Conclusion

These factors and developments have directed us to observe the prospect that the usage and acceptance of physical currency will considerably weaken in coming years and to reflect on the effects of such a development.

Many experts support reduction in physical currency usage and believe it will produce major benefits. Comprising potentially improved payment system, a lessening of crime, and less constrained monetary policy.

Supporters of maintaining cash as a payment option dispute that substantial reductions in cash usage and acceptance will further marginalize people with restricted access to the financial system, increase the financial system's vulnerability to cyber-attack, and reduce personal privacy.

Based on these benefits and costs and the likelihood that market forces will displace physical currency as a payment system, policymakers may choose to promote or discourage this trend. If the benefits and costs of cash and the various other payment methods evolve so that cash is significantly displaced as a commonly accepted form of payment, that evolution could have both encouraging and undesirable effect on the economy.

If noncash payment systems dislocate physical money and its usage and acceptance shrink, there would be numerous effects (both positive and negative) on the economy and society. Shortly, policymakers may have to take decisions about to obstruct or accelerate the decline of physical money and consider the effects of doing so.

Physical currency is valuable, as its features are simple and easy to use, hence it cannot be completely withdrawn from the economy. Nevertheless, its dominance as a payment system seems to have come to an end as electronic payment systems continue to gain popularity.

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