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Indians keeping more cash reserves at home now than they did before demonetisation

It has been almost two years since demonetisation, and India's cash economy has mostly bounced back but the ATM network is not strong enough yet. Rajiv Kaul, executive vice-chairman and CEO of CMS Info Systems, a cash management company that handles more than 57,000 ATMs and 34,000 retail points across the country, talks about the future of cash in India



MONEYGURU

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Do you think demonetisation changed the way India perceives and uses cash? Was it a lasting impact?

Demonetisation has changed consumer behaviour in both good and bad ways. I am happy about the flows into the equity markets which should help drive savings growth for Indians over the long term. It has also helped in understanding the weaknesses of our currency circulation systems and steps are being taken to fix these. The unfortunate fallout has been the ATM channel. What was perceived as "Any Time Money" became less dependable. Consumers are less confident about when an ATM will work and dispense cash. So, people have started withdrawing more cash per ATM transaction (8-20% growth). It has also been observed that people are keeping more cash reserves at home for emergencies than they did before.

If there was to be another large-scale demonetisation today, how do you think the economy and people, in general, would be impacted?

The Reserve Bank of India (RBI), banks and the cash management companies learnt a lot from the demonetisation exercise in 2016. RBI has constituted high-level committees and is aggressively implementing the recommendations to ensure the currency cycle in India is smooth and consumers can depend on access to their cash.

Can the current digital payment infrastructure support the govern-

ment's vision of digitising monetary transactions on a large scale?

As the first step towards digital experience, our ATM penetration needs to increase. Point-of-sale machines have slowed down from high growth in 2016-17 and, as of now, the sale of these machines has virtually stopped due to overcapacity. There is a dire need to have more ATMs in semi-urban and rural areas to save citizens' time and money to access the banking system. This is critical to financial inclusion and also to alleviate the hardships and high loan costs that farmers and poor citizens face in India.

Does India have abnormal levels of cash usage?

No. Japan has 18% cash to GDP compared to 12% in India. Germany has 75-80% retail cash transactions compared to 85-90% in India. The stock of currency grew in a developed economy like the US by 7% in the last five years (11-12% in India, pre-demonetisation). So, there is a need for cash as a preferred medium of transaction. Digital and cash will co-exist as they do everywhere in the world.

What are the pitfalls of cash transactions?

There are various pros and cons for both cash and digital transactions. The most common risk in cash transactions is that of counterfeit. Management of cash is still very inefficient and time-consuming. However, the cost of a cash transaction is the lowest, at about 0.25% versus the 1.5-2% credit cards charge.

For digital payments, key issues are a higher risk of

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Your favourite book
Measure What Matters by John Doerr

Your money mantra
Invest in only what you can understand. Keep it liquid and transparent

Your fitness mantra
Stay active, even if it's a small amount of activity

What do you lose sleep over?
Reinventing myself and pushing myself to grow.

Favourite thing on your desk
My calculator

frauds, higher transaction cost (each time you transact) and lack of privacy.

Do Indians have a general distrust towards non-cash transactions? Why is that?

Trust is a major factor here. The increasing number of reports of online fraud and data breaches have heightened consumer worries. The trust factor extends beyond digital payments as well. India has experienced a number of prominent e-commerce frauds where customers have received something other than what they ordered. Thus, a common solution to avoiding this is cash-on-delivery—mak-

ing the payment after an item is delivered. A poor telecom network only aggravates these issues. Finally, if you remove the extraordinary level of cashbacks, consumers realise there is a higher cost of digital transactions.

What are Indian banks doing to promote financial inclusion?

Banks have been caught up in NPA issues and a lot of clean-up, subsequently. They are also promoting digital transactions since they reduce costs to service. However, it is important to note that digital payments may not solve our problems regarding financial inclusion. Even today, rural India depends on cash for commerce. Many low-income groups have to go to money-lenders who charge exorbitant interest rates, simply because banks have not reached out to that segment of the society.

You and I have a CIBIL score and credit history, thanks to us being a part of the banked population. Almost 190-200 million Indian adults don't have bank accounts. Many who do, thanks to Jan Dhan, are not using them actively. They have to be brought into the banking ambit so that they can have access to affordable credit and have an avenue to park their savings and get cash out (through ATMs, micro-ATMs) at their convenience.

RBI recently issued guidelines for cash management outsourcing to banks and, subsequently, a Currency Cycle Association or CCA (self-regulating organisation) has been set up by the cash management industry. What is its objective?

The primary objective of the CCA is a part of RBI's directive to banks that came out in April to set standards for engaging service providers in cash management activities. RBI told banks to ensure that the staff associated with cash handling is adequately trained and duly certified through an accreditation process. The CCA will also work towards mitigating the risks to the industry and ultimately facilitate the regulation of this sector by RBI.

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