A CBOA PUBLICATION

I - CAN - IDEATE

JUNE 2023

IDEAS THAT HELP US GROW TOGETHER

FROM THE DESK OF GENERAL SECRETARY

RAVI KUMAR K

Dear Canpals,

In the recent publications, we witnessed our Mother Bank among the top 10 most valuable banking brands of our country. Also, our Mother Bank occupies the second position among nationalised banks after State Bank of India in this aspect.

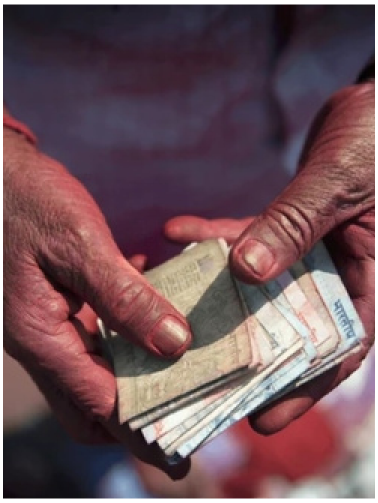
This mammoth success is attributed to the exuberant hard work of all the Canarites and the strong fundamentals and value system of our Mother Bank. Under the able leadership of our vivacious MD & CEO, we have successfully completed the first quarter of FY 2023-24.

Friends, in this edition of our newsletter, our editorial team has put currency paradox in a nutshell.

In our country, the informal sector employs substantial labour force due to which rural economy is cash dominated. In urban areas, higher middle class has precipitated towards digital payments. Still there is mystique about physical currency which can't be easily substituted and our editorial team has analysed the crux of this magical concept.

HAPPY READING!

HAPPY LEARNING!



INTRODUCTION

Currency is not merely a tool for exchange and numerical value; it carries historical, cultural, and national significance. It reflects the stories and aspirations of the people who use it. In recent years, as technological advancements have provided alternative means of payment, a peculiar trend has emerged. Despite the rising popularity of digital payments, the value of physical banknotes in circulation continues to increase. This phenomenon has been referred to as the "paradox of banknotes" by Bank of England Governor Mr.Andrew Bailey.

Causes of Currency Paradox

The Currency Paradox can be attributed to four major factors, as outlined by the Reserve Bank of India (RBI)

1) The decline in opportunity costs of holding currency, due to decreasing interest rates, has reduced the incentive to hold digital assets over physical cash.

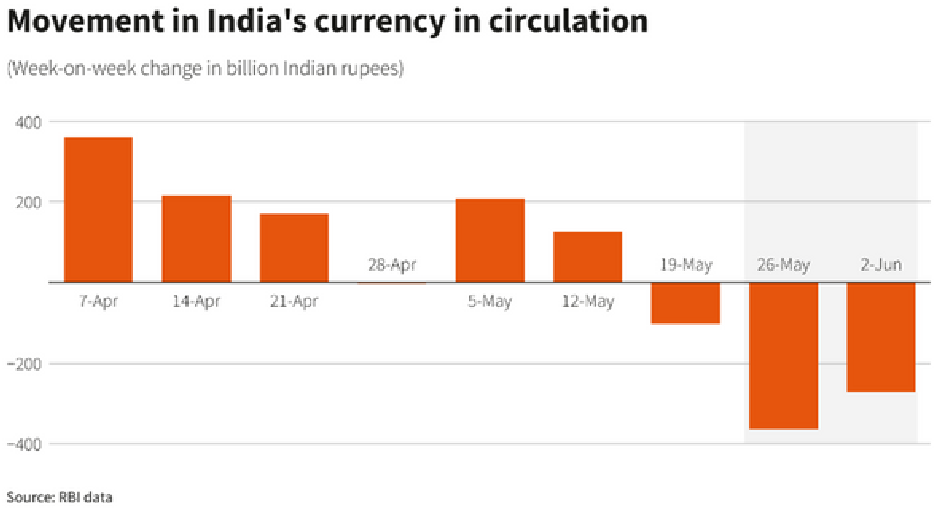
2) During uncertain times, people tend to hold onto cash as a precautionary measure, ensuring liquidity and security.

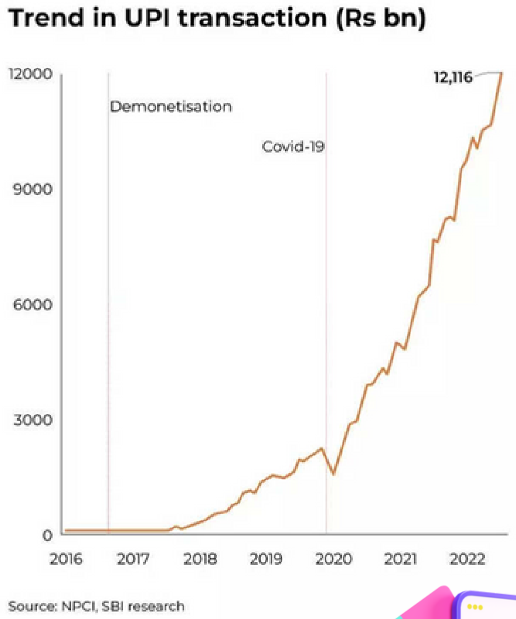
3) The presence of a large informal economy, where cash transactions are prevalent, contributes to the demand for physical currency.

4) Government benefit transfers in both cash and digital modes have increased the currency circulation, which has facilitated easy withdrawal of cash.

Recent Trend In Currency Circulation

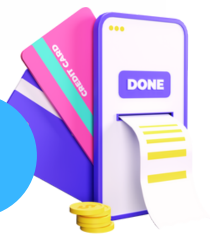
According to the Reserve Bank of India's annual report, the value of banknotes in circulation rose by 7.8% year-on-year to ₹33.48 lakh crore in 2022-23, compared to 9.9% in the previous fiscal year. The dominance of ₹500 and ₹2000 denominations, accounting for 87.9% of the total value of banknotes, signifies the continued reliance on physical cash. However,RBI initiated the withdrawal of ₹2000 notes from circulation, which can be visualised as a deliberate effort to address currency paradox.





Digital Era - A Push Towards Cashless Economy

The digital era has accelerated the move towards a cashless economy, characterized by the utilization of technology in managing financial transactions through e-commerce and e-banking. Following the demonetization of old ₹500 and ₹1000 notes, there has been a surge in digital transactions, driven by credit/debit cards, mobile applications and e-wallets. The government has also introduced incentives and measures to promote digital and cashless transactions, recognizing the advantages of a cashless economy.

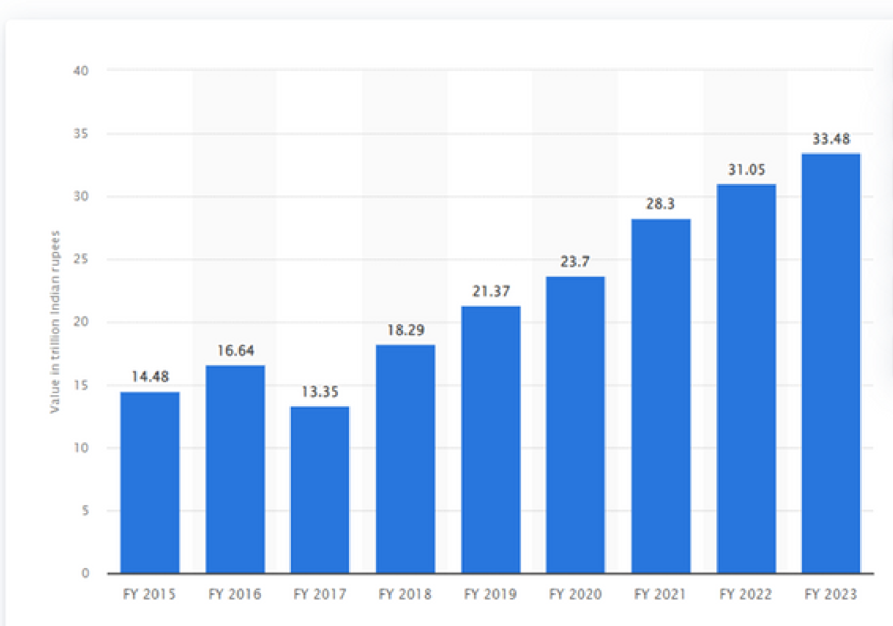


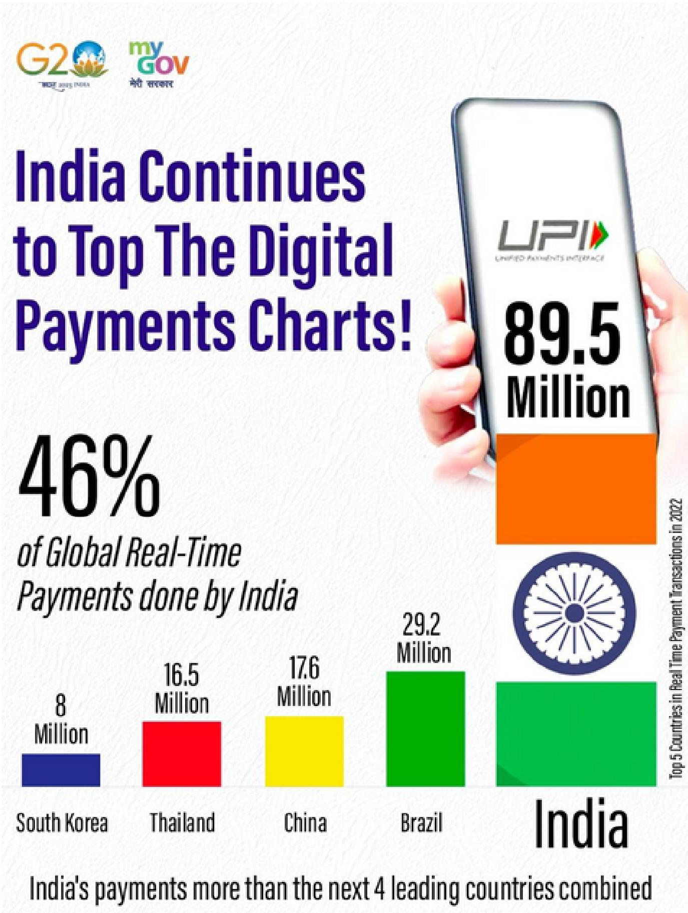
Types of Cashless Payment

Various forms of cashless payment methods have gained prominence. Credit and debit cards have maintained a steady share in transaction value, while Unified Payments Interface (UPI) transactions have experienced significant growth, reaching 16% in FY22 from 0% in FY16. Paper-based instruments like cheques have declined from 46% in FY16 to 12.7% in FY22. Recently, Govt. of India has introduced Central Bank Digital Currency (CBDC) to foster faster transmission of digital cash among Indian citizens.

Value of currency in circulation in India from FY 2015 to FY 2023

In Trillion Rupees





Features of Cashless Economy

- Digital payments provide convenience, speed, and efficiency in conducting transactions, thereby eliminating the need for physical currency.
- Electronic transactions leave a digital trail, facilitating transparency and reducing the risk of fraud.
- Digital payment systems allow greater access to financial services for individuals who were previously underserved by traditional banking methods, promoting financial inclusion.
- The transition to a cashless economy encourages technological innovation, which can lead to improved financial services, greater financial literacy and increased access to innovative financial products.

Barriers for Cashless Economy

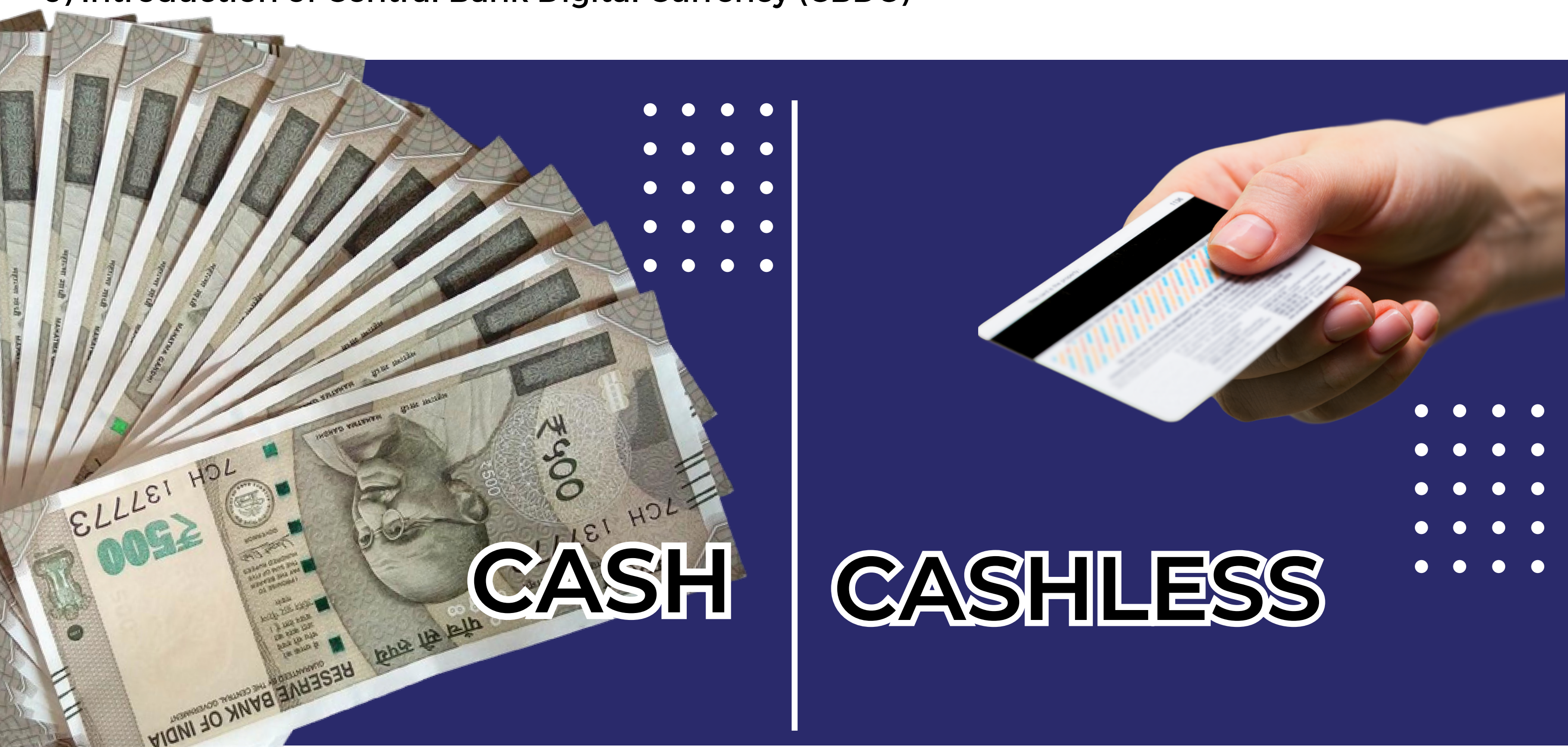
Despite its advantages, there are basically two obstacles to achieve a fully cashless economy:

1. The digital divide, where certain segments of population lack access to technology and financial literacy, hinders the widespread adoption of digital payments.
2. Growing concerns about data security and privacy may lead some individuals to prefer cash transactions.

Government Initiatives for a Cashless Economy

Major initiatives taken by Indian Government for Cashless Economy are:

1) Demonetisation.
2) Launch of Unified Payments Interface (UPI).
3) Introduction of Direct Benefit Transfer (DBT).
4) Initiation of Pradhan Mantri Jan Dhan Yojana (PMJDY).
5) Formation of Ratan Watal Committee to propel India's move towards Cashless Economy.
6) Introduction of Central Bank Digital Currency (CBDC)



PAYMENT SYSTEMS STATISTICS AS ON 7th JULY 2023

	BHARAT BILLPAY		CTS		NACH		NFS	
	Txn Count (in Mn)	Txn Value (in Cr)	Txn Count (in Mn)	Txn Value (in Cr)	Txn Count (in Mn)	Txn Value (in Cr)	Txn Count (in Mn)	Txn Value (in Cr)
7th July 2023	3.89	831.14	2.32	25,608.38	19.81	12,266.16	11.62	5,186.99
MTD	26.87	5,489.59	14.00	1,53,487.31	159.33	93,190.83	81.37	36,443.62

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BENEFITS OF CASHLESS ECONOMY

1. Expansion of customer base and overcoming geographical limitations for entrepreneurs
2. Convenience of conducting transactions anytime and anywhere without physical presence
3. Increase in the tax base and easier explanation of expenditure to tax authorities
4. Inculcation of budget discipline among individuals
5. Allow precise payment amounts even in fractions of a rupee or paisa through card payments or online transactions
6. Reduction in counterfeit currency circulation, thereby enhancing security in online transactions
7. Improved ability to trace funding for illegal activities, such as terrorist financing, due to the trail left by online transactions
8. Decreased costs associated with printing physical currency notes

If all of us start transacting through online and mobile banking, it will be our great contribution towards eradicating corruption and black money from our country - Prime Minister of India Shri. Narendra Modi

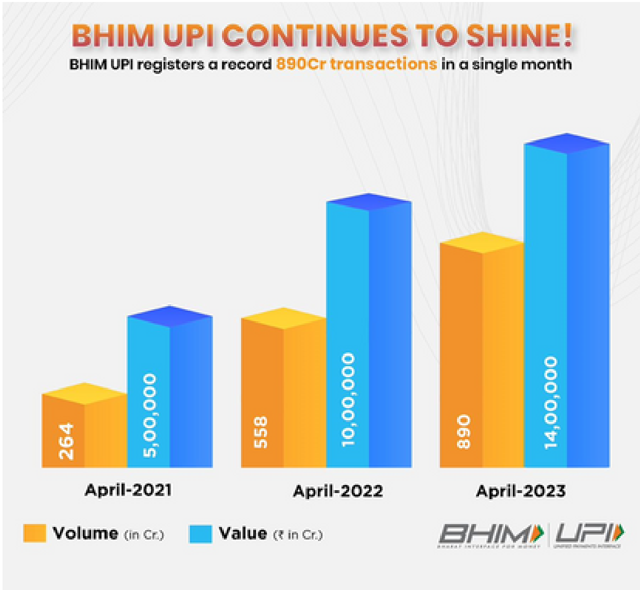
CHALLENGES FOR A CASHLESS ECONOMY

- **Risk of identity theft and falling victim to phishing traps**
- **Time-consuming process of obtaining a replacement card in case of loss or theft**
- **Vulnerability of financial details stored on mobile phones**
- **Affects the informal economy where cash transaction is prevalent**

CONCLUSION

The paradox of banknotes, also known as the cash paradox, presents one of the most perplexing aspects of the modern financial system. While many countries are witnessing a decline in cash usage due to the proliferation of electronic payment mechanisms, the value of cash in circulation continues to increase even in the developed countries like Japan, Switzerland, etc. The CIC to GDP ratio of European countries, which adopted Euro as their currency, stood at 12.1 per cent of GDP as of December 2022, which is similar to India's long-term average before demonetisation. India, despite the growth in digital transactions, has experienced a rise in currency demand, as evident from the CIC to GDP ratio, which is 12.7% as of March, 2023. While a cashless system represents an improvement over traditional cash-based systems, it is worth noting that no advanced economy has completely replaced cash due to practical limitations. However, by reducing reliance on physical currency and increasing the adoption of cashless transactions, transparency in business transactions can be improved, which is beneficial for the country and the economy. Although challenges such as identity theft and the technological literacy divide exist, minimizing cash usage and promoting digital transactions can lead to greater efficiency and transparency, fostering economic growth and development. Though it will take time to be a complete cashless economy, right strategies will infuse public confidence and make India a less cash society.

Unlock the Digital Future!
Embrace the Cashless Wave!



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A PUBLICATION FROM
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PROGRESS AND PROSPERITY THROUGH SERVICE WITH SINCERITY

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