

THE FURUTE OF DIGITAL CURRENCY (Digital Rupee) IN INDIA

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Abstract

The demonetization of currency in year 2016 by Modi government revolutionized the movement towards usage of digital payment methods in India. Though it was strenuous decision for country like India where 90% of the transactions are in cash, people adopted digital mode of payments in short span of time. The adoption of digital methods for payments is facilitated by phenomenal increase in ownership of smart phones and presence of user friendly payment modes like PAYTM and BHIM UPI. The paper tries to explore the global trends in digital currencies in selected countries and tries to examine the implications of digital currency for India through SWOT analysis.

In recent years, with the rapid growth of global non-cash transactions, digital currencies have booming development and gained wide attention in the industry. The COVID-19 outbreak in 2020 has a positive impact on stimulating the rapid development of digital currencies, which magnifying the effect of monetary policy, increasing the vulnerability of the financial system, and

posing challenges to the regulatory framework and cyber security.

Keywords:- *Digital currencies, Influence mechanism. Policy suggestions.*

Introduction

The demonetization of currency in year 2016 by Modi government revolutionized the movement towards usage of digital payment methods in India. The decision to demonetize bank notes of Rs 500 and Rs 1000 aimed at i) lowering cash circulation in the country which is directly related to black money and corruption ii) eliminating fake currency and iii) reducing terrorism funding. Though it was strenuous decision for country like India where 90% of the transactions are in cash, people adopted digital mode of payments in short span of time. The adoption of digital methods for payments is facilitated by phenomenal increase in ownership of smart phones and presence of user friendly payment modes like PAYTM and BHIM UPI. Though, initially people in India were reluctant to use digital system, but it has come to stay largely due to its prevalence in many

developed countries of the world and ease of use. Over the years, focused effort has been made to develop national payment infrastructure and technological platforms through Immediate Payment Service (IMPS), Unified Payments interface (UPI), Bharat interface for money (BHIM), Bharat bill Pay system (BBPS) or Aadhaar enabled payment system (AePS). As a result, there is substantial increase in retail electronic payments which, in turn, led to decline in currency

While enjoying the look, feel, and touch of cash is part of its ethos, India is nevertheless on the road to currency digitization. The Reserve Bank of India is scheduled to introduce a digital currency sometime before March 2023, which is the end of the current financial year. Currently, that currency does not have a name, but its purpose is to provide almost all the features that now come with cash, albeit being in a digital mode.

Today, digital transactions leave an audit trail and a trace. Information about identity, purchases, and location is known every time a debit or credit card is swiped. Another difference between a cash transaction and a digital one currently is that with cash, settlement happens at the time of the transaction. In other words, it is a “delivery-versus-payment” arrangement. In today’s digital transactions, however, payments are made at the time of settlement, which occurs with a time lag after the transaction. The preference for a delivery-versus-payment situation in which the buyer doesn’t part

with the payment until there is the assurance of delivery is perhaps one of the strong motivators for people to still like using cash.

Of course, continuing to have physical, paper-based currency in circulation at the same time that a digital currency is in use doesn’t quite gel with most visions of the future. That is why the Reserve Bank’s upcoming digital currency is so important and so different.

The Reserve Bank of India (RBI) has issued a concept note on Central Bank Digital Currency (CBDC) on October 7, 2022. This was stated by Union Minister of State for Finance Shri Pankaj Chaudhary in a written reply to a question in Lok Sabha today. The Minister state that the CBDC pilot launched by the RBI in retail segment has components based on blockchain technology. Giving more information on the CBDC, the Minister stated that the RBI has launched pilots of CBDC in both Wholesale and Retail segments. The pilot in wholesale segment, known as the Digital Rupee - Wholesale (e₹-W), was launched on November 1, 2022, with use case being limited to the settlement of secondary market transactions in government securities. Use of (e₹-W), is expected to make the inter-bank market more efficient. Settlement in central bank money would reduce transaction costs by pre-empting the need for settlement guarantee infrastructure or for collateral to mitigate settlement risk. The pilot in retail segment, known as digital Rupee-Retail (e₹-R), was launched on December 01, 2022, within a closed user

group (CUG) comprising participating customers and merchants.

What is Digital Rupee?

The Reserve Bank of India is set to launch the pilot of its central bank digital currency (CBDC), which it categorizes as legal tender in a digital form. Commonly known as the digital rupee, it will be exchangeable at par with existing currencies and will be considered acceptable for payments and a safe store of value. Also being called the e₹ or the digital rupee, CBDC issued by the RBI is aimed at creating an additional option to use money and isn't very different from the currently-issued banknotes; only the digital rupee is expected to be transacted digitally and facilitate ease of use.

The digital rupee is the RBI's accepted version of cryptocurrencies, which the central bank has dismissed repeatedly and called a serious challenge to the stability of the financial system of the country.

Being an electronic form of sovereign currency, the CBDC is being touted as safer than private cryptocurrencies and here's how the both will differ.

A digital currency is any currency that is available entirely in electronic form. Currencies' electronic types already predominate a large number of nations' financial systems. Digital currency, however, is exclusively exchanged through virtual means and does not leave a computer network.

The three major varieties of digital currency are cryptocurrency, central bank digital currency (CBDCs) and stablecoins.

The foundation of cryptocurrency is provided by blockchain technology which is the most usual form of distributed ledger used by digital currencies. According to CoinMarketCap, the availability of cryptocurrencies is more than 21,000.

Technology behind digital currencies-Blockchain

Blockchain is the future of finance industry which will revolutionize the financial dealings in the times to come. A blockchain is a digitized, decentralized, public ledger of all cryptocurrency transactions. Blockchain Technology is also named "The Trust Machine" as it allows people having no confidence in each other to collaborate without intervention of central neutral authority (The Economist, 2015). Through this technology, market participants can keep track of digital transactions without central recordkeeping which can be downloaded automatically by each computer connected to the network. Digital currency will do for financial transactions what an email does for communication. As a result, it is expected that it will bypass the centralized financial infrastructure in its entirety. It is expected that block chain technology can reduce costs in cross border transactions and in securities trading. Blockchain technology can function at two levels:- Private blockchain, where banks

become the custodian of cryptographic keys, and public blockchain, where each participating user acts independently.

What Are The Advantages Of Digital Currency?

Faster Mode of Payment

Digital currency can make your payments much faster than current means like automated clearing houses or wire transfers that take days for financial institutions to confirm a transaction.

Cheaper Global Transfers

At times global transactions can get very expensive. Individuals are charged high fees to move funds from one nation to another, especially when it includes currency conversions. Digital assets could interrupt this market by making the transaction cost-effective and quick.

24/7 Availability

Digital currency transactions work at the same speed i.e. 24 hours a day and seven days a week. On the other hand, existing money transfers frequently take more time during weekends and outside normal working hours because banks are shut and cannot confirm transactions.

No Manufacturing Required

Physical currencies have many requirements such as the establishment of physical manufacturing facilities. Whereas, in digital currencies, no such expense is involved. Also, digital currencies are immune to soiling or physical defects that are present in physical currency.

Well-organized Government Payments

If the government developed a central bank of digital currency, it could send payments like child benefits and food stamps, and tax refunds to people instantly, rather than trying to figure out prepaid debit cards or mail them a check.

What Are The Disadvantages Of Digital Currency?

Options

The crypto popularity is a downside. According to the head of Sidley's FinTech and Blockchain group Lilya Tessler, across different blockchains, there are several digital currencies being created with their own limitations. It will take a certain amount of time to decide which digital currencies in certain cases might be appropriate to use. It also includes whether a few are designed to scale for mass adoption.

Costly Transaction

Crypto uses blockchain technology where computers must resolve complex equations to validate and record transactions. This in turn takes a significant amount of electricity, the more the transaction the more the expense.

Issues of Cyber security

The digital currency has made people constantly worry about cybersecurity and facing many threats due to less secure methods to store this money. Cyberattacks are probably increasing and can also threaten digital currency users with virtual theft.

Do We Need the Digital Rupee?

The most important reason for launching a digital rupee by the RBI is to push India forward in the virtual currency race. And, of course, due to the growing importance of crypto currency

- With block chain technology, the digital rupee will increase efficiency and transparency.
- Block chain will also enable real-time tracking and ledger maintenance.
- The payment system will be available to wholesale and retail customers 24/7.
- Indian buyers can pay without a middle man.
- Lower transaction cost.
- Real-time account settlements.
- You don't have to open a bank account to transact with a digital rupee.
- Fast cross-border transactions.
- No risk of volatility, as the RBI, will back it.
- Compared to currency notes, the digital rupee will be mobile forever.
- But with a behemoth payment system like UPI around, can CBDCs up the game?

The way forward

Digital currencies are integral part of fintech revolution which will impact many areas including payment & settlement systems and services. Though this concept of digital currency is less persistent now, it will emerge and disrupt the existing processes and systems (how). Since inception, India's stance on crypto currencies hasn't been encouraging. This was evident from RBI directive to halt dealings in cryptocurrencies leading to fall of ZEBpay, India's largest crypto exchange, by disabling deposit and

withdrawal in Indian rupees. However, it is revealed that the move was not backed by enough research. Also, the report of the committee set up for determining the feasibility of digital currency is still awaited. Though RBI is apprehensive about crypto but it has no doubt in the utilization of distributed ledger technology in payment and settlement solutions and the power of Machine learning and Artificial intelligence. Currently, RBI shelved its plan to develop digital currency due to lack of understanding and preparedness in dealing with it. However, 11 Indian banks are planning to collaborate to develop new block chain system in order to facilitate financing needs of MSMEs (Economic times, Jan 28). A dedicated district in Telengana is planned to be formed in association with Tech Mahindra to be named as "Block chain district". For country like India, digital currencies can be introduced initially for retail transactions with in accessible security features and can be used later for investment transactions. Central bank can examine the viability of using digital currency in combination with existing systems or providers. It can be said in conclusion that the block chain will rule the economies all over the world in years to come and its adoption is necessitated either by compulsion or choice.

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