

The CBDC Revolution: Cashless Future in India

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Prof. Ramachandran teaches courses and conducts research at the intersection of Emerging Technology, Finance, Management and Entrepreneurship. Prior to joining the academia, Ram was a hands-on senior executive with over thirty-five year's track record of building and leading global consulting practices and high-growth businesses across the financial services and retail industries. He has helped several Fortune 100 financial services firms including Citigroup, Bank of America, Barclays, Goldman Sachs, and JP Morgan Chase with their risk, regulatory, and customer agenda.

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Siliconindia recently got a chance to interact with Prof. Ram, wherein he shared his thoughts on the global CBDC implementation landscape, its future prospects and challenges. Below are the excerpts from the exclusive interview.

Give us a brief explanation about CBDC.

Central Bank Digital Currency (CBDC) is a digital form of the currency issued by the country's central bank. The issuance, distribution and management of digital currencies are typically done by Central Banks and country's commercial banks. The main difference between CBDC and crypto currencies is that CBDC is backed by the government and thus equivalent to carrying currency completely risk free. Think of Indian Rupee or Swedish Krona or Chinese Yuan, but in a different form. Thus, it can be used for retail payments or any kind of cross-border transactions.

Do you think the role of the traditional financial systems will decline due to the development of digital currency in the future?

Any kind of digital payment platforms that will be introduced will make customers rely less on credit/debit cards, wire transfers and cheques. Over the past decade, the financial systems have seen significant digital infrastructure advancements.

Decentralized finance platforms that have been built using blockchain technology, use of artificial intelligence and deep mining techniques to support assurance, governance, and servicing. This alone is causing massive ripples in the financial services and also enhancing the transparency in financial process. However, traditional financial system will continue to prevail due to their requirement in complex financial transactions such as corporate finance, M&A and wealth management.

By establishing a digital footprint and integrating it with an eKYC platform, the prevalence of cash transactions can be significantly diminished. This, in turn, will enable the government to effectively monitor and curtail the circulation of illicit funds within the national financial system.

Will digital currencies completely replace physical cash in the future? Also, how will this affect the black money in India?

Prognosis of the use of CBDC points to a slow adoption with appropriate government incentives, education and acceleration of digital infrastructure in the country. It will take another ten years for broader adoption and acceptance by businesses and retail consumers. However, the advantages that an average person common man can get from CBDC will play a significant role in deciding the fate of physical currency in the future. Since the retail CBDC pilot was launched in India in December 2022, there has been a modest activity with about 50,000 users, 5,000 merchants and 7,50,000 transactions according to industry reports. I feel there is still a need for the government to create strong awareness among the public. Thus, it is safe to say that digital currencies will not be replacing physical currencies at least in the near future.

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By establishing a digital footprint and integrating it with an eKYC platform, the prevalence of cash transactions can be significantly diminished. This, in turn, will enable the government to effectively monitor and curtail the circulation of illicit funds within the national financial system. This in turn will reduce the corruption rate and counterfeit currencies in the country. However, the government has to significantly enhance the current regulatory, consumer protection, data privacy infrastructure to establish a safe, trusted and resilient environment.

What are the advantages and disadvantages of adopting CBDC? Please enlighten us on the opportunities associated with CBDC implementation?

Improved financial inclusion one of the major advantages touted for adopting CBDC. According to World Bank, there are over 1.4 billion people who are still unbanked in the world. These are primarily women, poor, less educated and people living in rural areas. In India the number of unbanked has reduced considerably in the last few years but it is still a staggering 130 million people. Bringing these people into the financial eco-system itself can be a significant economic growth for individuals and local communities. The way a CBDC is being designed is that a person will be able to make transactions without

network connectivity using even a feature mobile phone instead of having a smartphone. Secondly, it will be electronically done and digitally transacted, the cost of transactions and the costs associated with printing currencies will be cut-down significantly.

Reserve Bank of India spent about 5,000 crore rupees in printing currencies in 2021-22. Thirdly, CBDC will offer the government and the central banks flexibility in terms of managing their monetary policies. Fourth, having a digital currency allows programmability of currency. One can specify how, when and for what the currency is to be used. This can be particularly useful in directing government social benefits to citizens and avoid misuse of the same. To summarize, implementing a CBDC will result in an improved financial infrastructure and provide impetus for economic growth.

Policy makers, technology experts and business leaders are trying to address challenges relating to privacy, technological design options, monetary policy implications, systemic risk and transition/change management challenges.

How does CBDC implementation impact the payments processing both domestically as well as cross-border payments?

Due to the over-dependence on SWIFT as an international remittance platform, many countries strongly feel that their respective currencies are not getting their due share. As a result, they want to maintain their own identity. BRICS countries are all building their own digital currencies and testing new cross border settlement systems. Geo-political ambitions cannot be ignored as economic power is political and military power. Several countries are testing their own settlement platforms – take the example of Ice Breaker or Nexus projects. These collaborations will continue to disrupt the monopoly enjoyed by SWIFT. SWIFT themselves are now experimenting with CBDC to meet competitive pressure. CBDC based international trade settlements will reduce transaction costs and boost the speed of settlements, resulting in more global economic activity.

On the domestic front, while countries like India and China have enjoyed strong payment infrastructure, they do not go far enough. According to EY, digital payments in India via UPI and RTGS gave the economy a \$16.4 billion boost in its GDP which is a 0.56% of the country's GDP.

Would there be a global revolution if there we had a 100% cashless society?

This depends on a lot of parameters how it is being implemented. The revolution of cashless society will mainly depend on acceptance and adoption. Also, there are also a lot of technology parameters such as scalability, security and, interoperability to consider as well. There are several design considerations that are going to propel users to accept and adopt digital currencies.

Proponents of CBDC will point to the convenience, efficiency, and transparency of transactions. Governments will be able to tackle illicit activities at the same time boosting financial inclusion and economic growth. Critics will point to privacy and surveillance

issues as digital transactions generate vast amounts of data. Cybersecurity threats and its fallout cannot be understated. Finally, the overdependence on technology itself makes citizenry uncomfortable.

I feel the implementation of CBDC will no doubt create a revolution in the global financial systems. Ultimately TRUST will dictate adoption of digital technologies and currency.