

(English version of article from ‘The Economic Times’ – Published December 14, 2016)

Time for a digital fiat currency in a digital India

The recent move to demonetise India has had some expected and some surprising results. With a low volume of banknotes to make everyday purchases, the people of India have turned to other forms of payment to enact small value transactions. In spite of the inconveniences this decision has caused, most are inspired by the move being for a national agenda of digitisation and going cashless.

As India explores the ‘e’ dimension of ‘electronic’, the move to digitise the symbol of India’s financial future — the rupee — gains national prominence. With a vision to go cashless by 2020, the roadmap requires radical innovation. Private e-money and mobile wallets have been examined, even as the pitfalls can be recognised early. Counterfeit issues encountered with physical currency are further promoted due to the opacity of the electronic money economy.

As global economies innovate with new best practices, we are compelled to react to the buzz around digital fiat currency (DFC), an electronic legal tender issued by the central bank. Globally, central banks are analysing the possibility of issuing and circulating aDFC for better oversight and monetary policy controls. Is India ready to adopt a centrally issued sovereign digital currency, an eRupee?

As currency evolves, DFC is the way forward. It will be government-issued sovereign currency, hence legal tender in India. As a secure instrument and an alternate form of currency to paper and coins, it will have a value and identity.

The Reserve Bank of India (RBI) will solely determine the amount of DFC that should be put into circulation, just like notes and coins. The shift is achievable since DFC is at par with paper or coin and the only equipment required is a mobile phone without any additional charges or subscriptions. The distribution will be the same as paper currency through commercial banks and e-money companies.

DFC will be circulated with its own unique serial number, thereby addressing issues of counterfeit currency. Its capability of being fully interoperable allows for its use anywhere, without any existing limitations introduced by private e-money companies. The settlement will be immediate and not dependent on a clearing bank.

DFC maintains trust as it is powered by a high-security technology to issue and monitor the instrument. Therefore, there will be greater trust in our financial system and regulatory controls.

The use of sovereign currency in electronic form will reduce the cost of cash significantly, as there will not be logistic costs associated with printing, distributing, handling and, finally, even destruction of paper currency. As legal tender, this will also enable ease in flow of money for subsidies, payment and taxes between government and individual or vice versa, improving the efficiency, blocking leaks and efficient administration.

This form of currency will also create more transparency and visibility for the informal economy, which currently poses as a big challenge, to monitor the black market. On a macro-level, it is believed that a legal tender in digital form will have a positive effect on price and output stability, thereby contributing to the economy.

The real-time information will help to monitor the changes to the velocity of money, changes in the monetary policy like national money supply and intricacies of currency management.

By embracing digitisation towards a cashless India, we are driving transparency, economic growth, increasing financial inclusion, reducing the shadow economy and enhancing digital commerce. Though mobile services and online payment services have given rise to new avenues for cashless India, it creates unforeseen challenges as well for the government, due to the lack of visibility and control, and unclear regulations that impact the country's monetary policy.

Government initiatives, such as the modified Aadhaar programme, are hoping to reach out to citizens who are not currently benefiting from financial services and struggle with physical currencies in their hands. Let's take advantage of what India has already put in place to make a true digital economy work with a true DFC.

The evolution towards digitising all transactions big or small is upon us. The possibility that it will occur with no controls and with no regard for proper oversight is also viable. Fortunately, the technology exists for a DFC that is a secure, electronic sovereign currency authorised and issued by the RBI.

This technology and its adoption as a DFC are being studied across the world. This system will change the form of currency, without changing its process. It's time for a digital fiat currency in a digital India.

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