THE HINDU BusinessLine

'Govt should consider additional tax benefits'

ROBIN RAINA

India's digital landscape has improved dramatically over the past 18 months with a series of measures by the government now bearing fruit. Prime Minister Narendra Modi now needs to do some more heavy lifting in terms of incentivising digital transactions further and clamping down heavily on large-sized, illegal cash transfers. A higher foreign investment limit in the cash-guzzling insurance sector will also help.

Today, the basic electronic blocks for digital transactions to take off are in place – UPI, eKYC and Aadhaar – and they are all talking to each other. The introduction of the Goods and Services Tax will go a long way in bringing the so-called 'black economy' into the mainstream GDP. Citizens should now realise paying lower taxes is far better than concealing ill-gotten and untaxed wealth.

The Finance Minister Arun Jaitley has an opportunity to stand at the cusp of history when he reads his annual budget on February 1. From financial perspective, the Budget should focus on hand-holding Regional Rural Banks and co-operatives to adopt newer technologies and Point-of-Sale devices, besides encouraging merchants to adopt them willingly. Incentivising card payments and highlighting the costs incurred by banks in dealing with cash should be addressed strongly by Jaitley.

Tax benefits

Post-demonetisation, the government should offer additional tax benefits to people availing credit cards, debit cards and platforms such as UPI, among others. As long as cash transactions continue to go unpunished, tax evasion will be the norm. Cash dealings need to be the last resort. And this needs to be driven across strongly.

For instance, retail lending is a fast-growing and critical component of the overall economy. However, lenders are hamstrung to grow business exponentially because online credit histories of potential borrowers are absent. Contrast this with the Chinese and other western markets where such profiles are available at the touch of a button.

So, how do you form a credit profile of a potential borrower, who has been dealing in cash for 90 percent of his transactions? Just look at the bank write-offs that have happened in the country. New lenders or players will enter a virgin market only when they see the credit worthiness of borrowers.

Besides lending and wealth-services, Insurtech is also critical. This is the electronic backend of the insurance sector that provides cheaper and customised policies to buyers across the spectrum.

However, the insurance sector is held back due to weak distribution networks and the 49 percent cap on foreign ownership, which prevents large-scale investments from coming in. We, therefore, need to strengthen the distribution network to support the sector as a whole and this requires money.

FDI in insurance

The removal of FDI limit in insurance will encourage more deep-pocketed players to enter this huge market with better technology, thereby increasing insurance penetration in India.

In practice today, insurance players cater only to the top slice of the financial audience, offering limited services. But, if the industry has to grow, then companies need to evolve an ecosystem of multiple services offer a wide variety of products to the masses across the country, own the entire electronic chain from the backend to the service delivery, thereby bringing in operational efficiencies to the end consumer. This will ultimately ensure the customer sticks to the provider.

Lastly, I believe that India is today ready for a Central Financial Exchange, which can take care of all payments across sectors such as remittances, investments, bill payments and lending, besides e-learning, travel and e-commerce transactions. This will facilitate the next level of push to rope in millions that have still stayed away from the benefits of digitisation.

The writer is Chairman, President and CEO at Ebix

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