

A Study on Cashless Economy in India: Its Benefits and Challenges

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Abstract: Cash is the life blood of any economy, which is defined as the legal common way for all kinds of material transactions in an economy. Cashless economy refers to all the financial transactions that are taken place in an economy through electronic digital channels. Technology has changed the process of every economic transaction moving towards electronic payments. The primary objective of a cashless economy is to cover present non-registered transactions. To curb the shadow economy, corruption and to push the country towards a more transparent system, the RBI and the Government of India are making various efforts to minimize the use of physical cash in the economy by promoting the digital payment devices or modes including prepaid instruments and cards. The present paper is made to conceptualize the meaning of a cashless system and examine the significant challenges that are faced by Indians on the way towards cashless. The study shows that the introduction of a cashless economy in India can be seen as a step in the right direction as it has multiple benefits, which helps in growth and development of the economy in India.

Keywords: Cashless Economy, Electronic Payment, E-banking, Cyber Security, Digital Literacy

1. INTRODUCTION:

Technology has changed the process of every economic transaction moving towards electronic payments. The economy continues to be driven by the use of cash where less than 5 percent of all payments happen electronically in India. The number of currency notes in circulation has been found far higher than other large economies. According to a report in 2016, around 75 percent of transactions in India were cash based while in developed nations such as the USA and Japan, it was just around 20-25 percent. As per MasterCard study, 80 percent of U.S. consumer transactions are electronic while in Sweden only 3 percent of transactions are made in currency. Sweden is on the way to be the first cashless economy in the world as major banks have stopped working in cash. India is primarily a cash-intensive economy where a large percentage of payments are carried out in cash due to poor financial literacy in the country.

Cash is the life blood of any economy, which is defined as the legal common way for all kinds of material transactions in an economy. The need for cashless transactions in the economy comes up for the sake of bringing transparency, efficiency on the circulation of money through banking channels and imposing checks on black money. The Indian economy has gradually been transforming from agro-based economy to manufacturing and service sector dominated economy. The share of agriculture and allied sector in GDP has been reduced to 17.2 percent in 2016-17 whereas service sector alone contributed more than 58 percent to GDP. In order to bring larger part of population under banking umbrella, the Government of India has come up with innovative ideas to transform Indian economy from traditional practices to digital economy through implementation of various flagship programs such as Digital India, Make in India, Start-up India, Stand up India, Pradhan Mantri Jan Dhan Yojna. The government launched Pradhan Mantri Jan Dhan Yojna in August 2014 as financial inclusion is the first requisite for moving in the direction of a cashless economy in order to bring a large unbanked population under banking system. On 8 November, 2016 in an unexpected and sudden move, PM Narendra Modi demonetized the circulation of Rs 500 and Rs 1000, which consist of the 86 percent of the whole money circulation in India, creating a huge cash crunch in the economy. Demonetization created a new direction for a cashless economy in India. The government brought demonetization with aims at combating rampant corruption, untaxed black money, encouraging cashless transactions and making the informal sector more accountable.

In order to give a push to financial inclusion and bring innovative banking solutions, the RBI has issued licenses to open new-age small finance banks and payments banks. It is intended to take advantage of the advancement of technology for making India digital. The recently launched Unified Payments Interface (UPI) by National Payments Corporation of India makes digital transactions simple. The RBI has unveiled a document, "Payments and Settlement Systems in India: Vision 2018", setting out a plan to encourage electronic payments and to enable India to move towards a cashless economy in the medium and long term. The circulation of physical currency is made available minimum.

2. OBJECTIVES OF THE STUDY:

1. To elucidate the concept of Cashless Economy.
2. To explore the challenges in the path of development of Cashless Economy in India.
3. To examine the benefits of a cashless economy.
4. To make suggestions to face challenges to improve the cashless transaction system in the Indian economy.

3. RESEARCH METHODOLOGY:

The present study is based on descriptive as well as exploratory in nature. The study has been carried out based on the collection of the available secondary data. Secondary data was collected from different sources such as articles published in different journals, newspapers, published books, periodicals, conference papers, Reports published by NITI Aayog, working papers and websites and so on.

4. CASHLESS ECONOMY:

In an era of modern technology, the Government of India is trying to put emphasis on digitalization through the development of a cashless economy by replacing the existing physical currency custom. The term 'cashless economy' refers to a financial situation in which no liquid money or paper currency is used by the people for making transactions. Cashless economy is a financial system that aims at reducing, not fully eliminating total physical currency, that is, notes or coins circulating in the economy while encouraging more electronic-based transactions. In the words of Daniel, Swartz and Fermar (2004), it is an economic system in which all transactions are not done predominantly in exchange for actual cash. More specifically, a cashless economy is an economic system where financial transactions are not being done in the terms of currency notes, coins or physical cash money. The transaction in a cashless economy is made with the help of electronic digital channels such as direct debit, credit cards, debit cards, electronic clearing, and payment systems such as Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS) in India. It is the economy that runs mostly on plastic or digital money and thus it is the minimal use of cash or money in paper form. In short, it refers to the widespread application of modern technology in the financial system.

The digitalization of traditional payment methods is a revolutionary development of banking industries, Internet services and mobile industries, which provides more economic freedom to people. It creates an opportunity to establish new technologies and developments worldwide, resulting in economic growth of the country. Digital payment is the heart of a cashless economy. Digital payment is a method of transactions in which the payment is carried out using different types of digital modes. Transaction in digital payments is completed online. Digital payment occurs when products are purchased through the use of various electronic mediums. There is no use of cash or convenient methods in this type of payment method. It is also called electronic payment. Digital payments create economic freedom for business transactions of their users anywhere in the world without taking much time. Economic freedom allows people to trade across the world. They can expand their business globally by transfer or accept payments with safe and secure transactions in just a few hours around the world and it reduces corruption and bribery.

5. A. METHODS OF CASHLESS TRANSACTIONS:

With a vision to transform India into a digitally empowered economy, Digital India programme is an important programme of the Government of India. 'Faceless, Paperless, Cashless' is the prime motto of Digital India. As part of promoting cashless transactions systems and converting India into a cashless economy, various methods of digital payments are available. They are as follows

a) Banking Cards (Debit/ Credit):

One of the most widely used methods for cashless payment is banking cards issued by the bank such as debit card and credit card, which are used to withdraw money from ATMs and to make online payments. Debit and credit cards offer consumers more security, convenience, and control than any other payment method. Banking cards are secured by a four-digit pin, and whenever we make an online transaction, we are required to enter the pin and OTP, which is sent to the registered mobile number.

b) Internet Banking:

Internet banking is also known as online banking, e-banking or virtual banking, which does not involve any wallet and is the easiest method of online transfer of funds from one bank account to another bank account, credit card, or a third party. It is an electronic payment system that enables customers of a bank or other financial institution to carry out a range of financial transactions through national electronic funds transfer (NEFT), real-time gross settlement (RTGS) or immediate payment service (IMPS), all of which come at a nominal transaction cost.

c) Mobile Banking:

Another integral component of cashless payment is Mobile banking, in which service is provided by a bank or other financial institution that allows its customers to carry out any kind of financial transactions using a mobile device such as a mobile phone or tablet. In mobile banking, software is usually called an App, provided by the banks or financial institutions instead of using the card to make purchases. Most of the banks have their mobile banking App and some private companies provide such services for example - Paytm, Free charge, Airtel money, Jio money, SBI buddy, its cash, citrus pay, Vodafone m-Pesa, axis bank lime, ICICI pockets etc.

d) E-Wallets:

E-wallet stands for Electronic Wallet, which is another cashless payment mode available for people. E-wallet can be used for making any transactions in purchase of products or services. Both customer and merchant require a smartphone with active internet connection in order to use E-wallets. There are a number of examples of E-wallet such as PayPal, Payoneer, Transferwise, Shriril, PayZa etc. After registering for E-wallet we require to link our credit card or debit card with your E-wallet ID. E-wallet can be used for fund transfer from one account to another account or online shopping. It is one of the simplest cashless methods.

e) Unified Payments Interface (UPI):

Major component of cashless payment is Unified Payments Interface (UPI), which is launched by NPCI to facilitate instant fund transfer between multiple banks via mobile phones. It is built over the immediate payment service (IMPS) for fund transfer using virtual payment address, account number with IFSC, mobile number with mobile money identifier. Each bank provides its own UPI App. A mobile banking personal identification number is required to confirm each transaction. The few examples of UPI Apps are SBI Pay, ICICI Pocket, Axis Pay UPI App, Union Bank UPI App, PNB UPI and PhonePe etc.

f) Aadhaar Enabled Payment System (AEPS):

Newly developed another cashless payment is Aadhaar Enabled Payment System (AEPS). It is one of the better and transparent cashless payment methods. AEPS is like Micro ATM, using the Aadhaar authentication. It requires a smartphone and a finger-print scanner for making transactions. It is compulsory to link your Aadhaar card number to your bank account in order to use this facility. AEPS can be used for making transaction like Aadhaar to Aadhaar fund transfer, Cash withdrawal, Cash deposit etc.

6. BENEFITS OF CASHLESS ECONOMY:

a) Transparency and Accountability:

The development of a cashless system curbs the parallel shadow economy (black economy) which runs majorly on a cash basis. Cashless transactions are track-able and more transparent than that of physical transactions. Electronic transactions always leave a digital proof beneficial for both the payers and the receivers and hence make the system much more transparent and compliant. Cashless systems speed up the settlement of transactions both locally and internationally without taking much time.

b) Raising Trends of E-Commerce:

The E-Commerce market has got a new direction after the introduction of the concept of cashless economy in India as it has grown from \$ 4.4 billion in 2010 to around \$16 billion in 2015 and this further is expected to hit by \$76 billion by 2021. Number of buyers online has increased to 90 million over the last three years. There is raising the trends of online purchasing backed by many forces such as strong value proposition offered by online merchants, proliferating payment platform, strengthening delivery channels, home delivery, 24*7 active markets etc. The increasing expansion of E-commerce has made immense contributions in scaling up 'Digital India'.

c) Increased Tax Collection:

Another major benefit of cashless system in India is that the tax evasion has drastically fallen over the last few years as the payments made through digital means are useful to track and thereby it becomes easier for the government agencies to keep track of the spending and bring more people in the tax fold who were earlier not paying taxes despite having large incomes. The number of returns filed has registered a rise of about 24.7 percent as on August 5, 2017 as compared to a growth rate of 9.9 percent compared with last year. During the entire fiscal year 2016-17, the total number of returns filed was 5.43 crore which is 17.3 percent more than the returns filed during fiscal year 2015-16. As per report during the year 2016-17, about 1.26 crore new taxpayers were added to the tax base till June 30, 2017.

d) Technological Innovation in Indian Banking:

The application of digital technology has paved the way for universal availability of banking services to all since the overcrowded bank branches, need of 24* 7 banking facilities with ease and convenience, increasing urbanization, organized retailing, raising education levels, raising income level, changing lifestyle of customers have forced banks to develop technological infrastructure for its customers. Now banks are inclined to cater digital banking facilities at various levels to customers. Banks in India are currently devoting about 15percent of their spending on development of technological infrastructure.

e) Employment Opportunities:

The cashless economy paves way for the generation of new employment opportunities in India as internet penetration is continuously rising in the last three years. As per a report published by Internet & Mobile Association of India and market research firm IMRB, mobile internet users reached to 420 million by June 2017 and the proportion of data component rose from 45percent to 65percent

within a short period of five years. The demand for smart phones has drastically increased over the last few years. In India, the number of smart phone users is estimated to reach 279.24 million by 2017. An increase in such demand creates immense employment opportunities in digital technology markets.

7. CHALLENGES OF CASHLESS POLICY IN INDIA:

a) Digital Literacy:

India is a rural dominated country where the illiteracy rate is not so high especially in rural areas. Digital literacy is just 10 percent in India. More than half of the country's population still does not know how to use a computer. There are still many rural and urban areas in India where access to high speed networks is very difficult. Apart from this, everyone in the country is not able to access Internet facilities because of its high cost. We cannot expect the transformation of the Indian economy from a traditional branch based model to a virtually exist cashless economy in the absence of digital literacy.

b) Unorganized Economy:

Indian economy is predominantly indigenous economy where more than 50 percent of population is engaged with agricultural and allied activities, whereas out of crop production workforce constitutes 75 percent and 69 percent in rural and urban areas respectively, as per NSS 68th round data in 2011-12. As per World Bank report, bank account penetration was just 35 percent in 2011 which rose to 53 percent in 2014. With an objective to bring a larger part of the country's population under banking facilities, the Government of India launched Pradhan Mantri Jan Dhan Yojna in August 2014. Under this scheme the number of beneficiaries was just 29.52 crores till August 2017 but about 72 percent of Jan Dhan accounts are inactive now, which is the biggest constraint in cashless payments in India.

c) Cyber Security Issues:

Another mounting challenge in the development of cashless policy in India is cyber security issues. Digital transactions confront many issues such as the risk of online fraud, leakage of confidential information, cyber-crimes, malware and virus attacks etc. This is one of the biggest concerns to deal with in order to popularize digital payments in countries like India where digital literacy is very low.

d) Poor Banking Infrastructure:

Banks are the backbone of a cashless economy as they create the basis of digital payment systems. However, the banking infrastructure of the country for creating the basis of a cashless economy is not enough to match the demand. The government report on financial inclusion "Overview and progress of financial inclusion" states that as per the Census 2011 the penetration of banking services among households is just 58.7 percent. It would be very difficult to engage people on a digital platform due to the high unbanked population. As per RBI report as of August 2016, there is one bank branch per 10,000 people and one ATM per 5000 people.

e) Lack of Financial Literacy:

Financial Literacy is one of the important components for the development of a cashless system. However, India though being home to 17.5 percent of the world's population, nearly 76 percent of the adult population does not understand even the basic financial concepts and consequently this extremely large chunk of populace remain on the sidelines of the government's drive to go digital. This is one of the biggest hindrances in promoting the cashless system in the Indian economy.

8. SUGGESTIONS:

Looking at the overall scenario of establishing the cashless economy, it is beneficial in the present system. In an era of modern technology, a cashless economy is the need of the hour. It has become not only important but also necessary for the country to go cashless for the systematic development in the economy.

a) Equitable improvement of infrastructural facilities must be made for bringing in effective changes and thus decreasing the disparity in the development of rural and urban regions.

b) Mere launching of schemes and campaigns regarding cashless does not seem to be worthwhile. To make these schemes more impactful, some sort of marketing tools like exhibitions and camps in rural areas should be set-up to make these schemes fruitful.

e) Eliminating all sorts of extra charges, online transactions should be made as cheap as possible so that more people switch from cash based to cashless economy.

f) Adequate security mechanisms must be put in place to safeguard the interest of consumers against dubious and fraudulent practices of fraudsters, which is one of the mounting challenges in the development of cashless policy in India.

g) Financial Literacy is one of the important components for the development of a cashless system. We must look at the expansion of financial literacy in order to advance the concept of a cashless economy.

9. CONCLUSION:

Cash is the life blood of any economy, which can be defined as the legal common way for all kinds of material transactions in an economy, supporting the large informal, unorganized economy; the livelihoods of the majority of the poor population also runs in cash. Cashless transaction is a system which allows individuals to purchase goods or services without the exchange of anything tangible. Greater application of digital payments will save a lot as it will help in bringing down the cost of cash in India. The development of a cashless economy would lead to transparency, curb corruption and lead to convenience for economic growth. The roadmap towards creating an environment of secure and a user-friendly digital payments infrastructure for India has lots of potential to immensely increase the financial inclusion of the people and the development ladder that is perhaps one of the most important reasons that the government must vigorously work towards promoting and developing a cashless economy. Cashless economy in India can be achieved by the adoption of proper methods of digital payments channels, which requires new safe and secured financial policies, centralised administrative control, regular monetary attention on the bankers, government agencies and other private service. Moreover, in order to scale up the development of the cashless economy in India, it demands safe and secured services like immediate certification of payments, clear statement of their accounts, no hidden charges, full control on money, shortening the process of transaction by fulfilling mandatory information. The transformation of rural areas is the biggest challenge in

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front of the Indian economy. The government must take necessary steps to pave the way for its transformation in the long run from traditional branch based model to technologically driven cashless economy in order to bring transparency, flexibility, efficiency, convenient, customer friendly banking facilities in India.

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