



# CASHLESS ECONOMY IN INDIA: PROBLEMS AND OPPORTUNITIES

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**Abstract :** The purpose of this research is to investigate India's potential transition to a cashless economy, focusing on both the country's strengths and its limitations in this regard. The notion of a cashless economy is one of the most cutting-edge and in-demand ideas in the economics world today, and prominent economists are taking notice of it. A cashless economy is one in which the amount of real money that is moving in transactions is minimized rather than abolished. The cashless payment system allows customers to utilize their electronic devices to carry out core tasks such as making payments for items and services and transferring money to one another. Both parties involved in a transaction are required to have access to these skills. The digital payment methods are applicable to a wider variety of transactions than only business ones; for example, they may be used to pay for things like energy bills, school fees, hotel bookings, and rental accommodation. One definition of a cashless system is one that enables the storage of monetary resources in digital form and their subsequent use on demand. The transition to a cashless economy has been taking place in India on a methodical and consistent basis. The move away from a cash-based economy did not happen overnight or without much resistance. A move away from cash and toward digital payments was one of the goals that the administration set for itself in February of 2016. The move toward a cashless economy in India is being motivated by a number of factors, including the need to save time, money, and energy; to reduce tax evasion; to reduce the danger and expense of retaining currency notes; and to regulate black money. The transition from a cash-based to a cashless economy has a number of obstacles, including the management of a currency-denominated economy, inadequate mobile network infrastructure, and illiteracy, amongst others. There are a number of misconceptions floating around about cashless transactions, which discourage the average person from switching to using cashless methods. There is no question that India's technology and infrastructure are not sufficient for a cashless economy, but first and foremost, we need to work on changing the mindset of the average citizen.

**IndexTerms - Cashless Economy, Transactions, Digital Payment.**

## **Introduction**

A cashless economy is an economy in which the amount of physical money that is exchanged in transactions is minimized rather than removed entirely. The cashless payment system allows customers to utilize their electronic devices to carry out core tasks such as making payments for goods and services and transferring money to one another. It is necessary for both parties involved in a transaction to have access to these skills. The digital payment methods are applicable to a wider range of transactions than only business ones; for example, they may be used to pay for things like energy bills, school fees, hotel bookings, and housing rents. A cashless system is one in which monetary assets are maintained in digital form and may be accessed and used on demand. Moving away from a cash-based economy has been a methodical and gradual process in India. The move away from a cash-based economy was not done without much consideration or difficulty. In February of 2016, the government gave the go light to a slew of initiatives and programs designed to encourage the use of digital payment methods and a transition away from cash. In recent years, the idea of a

cashless economy has been gaining ground all across the globe, with many governments taking moves towards a digital economy. This trend is expected to continue. The government of India has been encouraging the adoption of digital transactions as a means of lowering the country's reliance on physical cash and expanding access to financial services. The shift away from a cash-based economy in India, however, has not been without its share of obstacles. In this article, we will discuss the challenges that India has in moving toward a cashless economy as well as the opportunities that it presents.

## Background

The movement away from a cash-based economy in India got its start in 2016, when the government of India demonetized the INR 500 and INR 1000 notes. These two denominations accounted for around 86 percent of the money that was in circulation at the time. The action was taken with the intention of reducing instances of unscrupulous behavior as well as support for terrorist organizations. In an effort to lessen people's dependency on cash transactions, the government pushed individuals to use digital payment alternatives like as mobile wallets, debit cards, and internet banking. In addition, the government has encouraged the use of cashless transactions by launching a number of different digital payment projects, such as the Unified Payment Interface (UPI) and the Bharat Interface for Money (BHIM).

## Objectives of the Study

- Comprehend the notion of a cashless economy and its development.
- To evaluate India's transition to a cashless economy, which began with demonetisation.
- Determine the different problems as well as prospects of India as a cashless economy.

## Research Methodology

In this research, we will make use of secondary data that is descriptive in nature. These data might have been collected from a wide variety of sources, including newspapers, articles, books, research journals, GOI reports, RBI bulletins, other publications on the themes, and so on.

## Problems faced by India in becoming a Cashless Economy

There are so many problems for cashless transactions in countries like India because people prefer to pay and receive cash rather than cashless payments.

- **Low Penetration of Digital Payments:** Only 9% of Indians are credit card holders. Many individuals still make regular purchases using cash.
- **Digital Divide between Urban and Rural Areas:** Rural locations have limited access to digital infrastructure. Lack of knowledge and instruction on digital payments.
- **Cybersecurity Concerns:** The risk of fraud and identity theft is quite high. Better cybersecurity laws and regulations are required.
- **Lack of Digital Infrastructure:** The availability of internet access is limited. Many locations have subpar digital infrastructure.
- **Illiteracy:** According to the census completed in 2011, around 26% of people in India are illiterate. These individuals are not familiar with how to do cashless transactions. The vast majority of individuals have just a basic understanding of either the English or Hindi languages. They are only able to communicate in their own tongue. It is a significant obstacle to the expansion of cashless economies in India.
- **Less Trust:** The primary obstacle to the widespread adoption of cashless transactions is also a lack of trust. Because individuals do not trust cashless transactions, cash transactions are the favored method of payment among the populace. They have the impression that doing business without using cash exposes one to danger, which may lead to fraud occurring.
- **Lack of Privacy:** There is a potential loss of privacy associated with cashless transactions. These days, individuals are understandably terrified of having their true identities revealed. People don't always want to do what's being asked of them.
- **Less Internet Penetration in Indian Context:** In rural parts of India, there is a shortage of network and internet facilities, which is an issue. Because there are so many rural areas that do not have access to the internet, this is the primary barrier to the implementation of a cashless economy. Other key obstacles include the limited availability of internet-related education and information.

- **Cost of Transactions:** The fees associated with doing business online might be prohibitive for many individuals. The transaction costs that are inherent to digital payments have the potential to accumulate and become prohibitively expensive for consumers.
- **Prospects of India as a Cashless Economy**
- **Improved Accountability and Transparency:** A cashless economy promotes accountability and transparency in all aspects of transactional activity. Because digital transactions leave a record that can be tracked, it is much easier for law enforcement to uncover corrupt behaviour and put a stop to it. It is possible that this will help reduce the amounts of fraudulent activities, money laundering, and other types of criminal conduct.
- **Reducing Corruption and tax Evasion:** A cashless economy may also help eradicate corruption and reduce or eliminate opportunities for tax evasion. In an economy that is mostly cantered on the use of cash, it is much easier to evade paying taxes and engage in corrupt practices. When there is less actual currency in circulation, it makes it more difficult for individuals to take part in activities like these.
- **Convenience:** Transactions made using digital payment methods are more convenient than those made using cash. Because it is possible to make digital payments from the comfort of one's own home, one is no longer need to carry about huge sums of cash, which may be dangerous. Transactions made using digital payments are both faster and more efficient than those made with cash, in addition to saving time and money.
- **Financial Inclusion:** Digital payments have the potential to contribute to a higher degree of financial inclusion, especially for those individuals who do not have access to traditional banking services. Making digital payments may be accomplished with the use of mobile wallets, which can be accessed with a cell phone. Because of this, those who do not have bank accounts may now more readily use financial services even if they do not have such accounts.
- **Fostering Entrepreneurship:** A cashless society has the potential to encourage and support entrepreneurial endeavours. Because it is now simpler for small companies and startups to accept payments via the use of digital payment methods, their growth and success may be encouraged. This might also lead to an increase in the size of the economy as well as the creation of new employment opportunities.
- **Enhanced Financial Inclusion:** Digital payments may contribute to greater financial inclusion in India. Those without access to traditional financial institutions may nonetheless participate in the economy by reducing their reliance on cash. This may help reduce poverty and inequality in the country.
- **Improved Tracking of Economic Activity:** Transactions conducted online leave a paper trail that may be followed to track previous economic activities. For government organizations and policymakers, having access to this information may make it easier to make informed choices on economic policies and interventions.
- **Reduction in the Price of Printing and Shipping Physical Currency:** Moving toward a cashless economy may also result in reduced costs associated with the production and distribution of physical money. This may help the government save money and reduce its impact on the environment by reducing the amount of cash that has to be printed and distributed.

### Government Initiatives

The government of India has taken several initiatives to promote digital transactions and encourage people to move towards a cashless economy. Some of these initiatives include:

- **UPI and BHIM:** The Unified Payment Interface (UPI) and the Bharat Interface for Money (BHIM) were both launched by the government with the intention of promoting the use of digital transactions. Customers are able to instantly transfer money between bank accounts by using their mobile phones in conjunction with a real-time payment system known as UPI. Users are able to use their phones to make digital payments thanks to a piece of software for mobile devices called BHIM.
- **Aadhaar-Enabled Payment System:** Anyone may use their Aadhaar number and biometric information to make online purchases using a mechanism called the Aadhaar-enabled Payment mechanism (AEPS). The Aadhaar number and the biometric verification that it provides may be used by anybody to withdraw cash, deposit cash, and check their balance using this system. The "Digital India campaign" is the primary initiative that the Indian government is pursuing with the intention of



accelerating the development of the country's digital infrastructure and services. The objective of the program is to raise the level of digital literacy among persons, to advance the use of electronic government, and to provide broadband access to all communities. It is believed that this endeavor would make it easier to shift to a cashless economy by improving digital infrastructure and expanding digital literacy levels.

- **Pradhan Mantri Jan Dhan Yojana:** The Indian government began a program in 2014 called the Pradhan Mantri Jan Dhan Yojana (PMJDY), which stands for "National Financial Inclusion Mission." The program's ultimate goal is to ensure that every family in India has access to banking services by opening bank accounts for them all. In addition to encouraging the use of digital payment systems, the initiative offers financial incentives to participants who complete digital transactions.
- **Cashback Programmes and Incentives:** The government has also implemented a variety of rebate programs and other incentives in order to encourage more people to adopt digital payment methods. For instance, the government has declared that consumers who pay for gasoline using digital payment methods at petrol stations would get a discount of 0.75 percent. The government has created the Digi Dhan Vyapar Yojana and the Lucky Grahak Yojana in order to boost digital transactions and provide consumers prizes for using these methods.
- **Demonetization:** The demonetization of the 500 and 1000 rupee notes in India in 2016 was a significant step toward India's goal of increasing the use of digital payment methods. Because of the transition, there was a rise in the number of digital transactions, as a lot more individuals began utilizing digital payment methods rather than traditional forms of payment like cash or checks.
- **Establishment of Payment Banks:** A great number of payment banks in India have been granted licenses by the Reserve Bank of India, which enables them to take deposits and provide services related to digital payment transactions. Payment banks are organizations that promote the use of digital payment methods and make conventional banking services available to customers who do not have access to such methods.

## Conclusion

The transition away from a cash-based economy in India might help eliminate "black money," enhance transparency, encourage entrepreneurial activity, and boost tax collection. Despite this, it is important to find solutions to problems such as enhancing digital literacy and cybersecurity. A setting that encourages the use of digital payment systems requires the participation of all relevant stakeholders in order to be developed. India is capable of effectively realizing the full potential of becoming a cashless economy with the application of focused effort.

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