

INDIA'S ADVANCEMENT TOWARDS CASHLESS ECONOMY

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Abstract

Cashless culture have existed from the time when human civilization came into existence, based on barter and other means of exchange, and cashless transactions also turn out to be possible in modern times using digital currencies. A cashless economy is one in which all dealings are made using credit/debit cards or digital medium and the exchange of paper currency is nominal. As the proportion of business migrating to online continues to rise, cashless transactions are clearly in the ascendant. We Indians have to feel confident about the move, especially those who doubt online security. Cashless initiative needs awareness, especially in rural areas. Contribution by rural and co-operative banks, post offices and other financial institutions to create awareness and education programmes will ultimately pave the way for a cashless economy.

Key words: cashless economy, digital payment, online banking, e-banking, mobile banking, etc.

1. Introduction

In cashless economy, all types of transactions are carried out through digital means. It includes e-banking, debit and credit cards, card-swipe or point of sales machines and digital wallets. In this system, there is no physical cash in circulation. Expenditures are made through credit and debit cards, bank electronic fund transfers or virtual wallets. Our Indian economy is cash based. Even the MNCs like Flip-kart, Amazon, etc. had to incorporate 'cash on delivery', just to be able to strike into the Indian market. The anticipation that the Indian economy will learn to work on less cash following demonetization is slowly coming to zero. Less than 18 months after the government resolute to withdraw 86 per cent of the country's currency in circulation, cash as a percentage of GDP are nearly back at levels seen before demonetization. Data released by the RBI, shows that currency in circulation is now at Rs.19 lakh crore. As a share of GDP, currency in circulation stood at 11.3 per cent in April 2018, close to the pre-demonetization steady state of 11.5-12 per cent of GDP. Before demonetization, currency in circulation stood at Rs.17.98 lakh crore or close to 12 per cent of GDP. In India, 78 per cent of all consumer payments were in cash, whereas in US, it was 20 per cent and in UK it was 25 per cent. India is the 4th largest user of physical cash in the world. In the era of technology, this is not only backward, but also irrational and uneconomic.

2. Practical implementation for moving on path of going cashless

- Payment banks
- Electronic fund transfer system
- Digital wallet

- Internet banking
- Banking cards
- Banks pre-paid cards
- Point of sale
- Mobile banking

3. Are we ready for transformation?

The provoked mission of Government of India to drive India towards a cashless economy was boosted with the announcement of demonetization on November 8, 2016. Indian Government is functioning towards escalating the share of cashless transactions, which is a good thing for our economy. The Digital India programme of the Government of India is with a vision to transform India into a digitally empowered society and knowledge economy.

4. Evolution of cashless economy in India

The evolution of the telecom system, with significant lessening in call and data rates, along with the prices of smart phones, is driving the move to a cashless economy. The major initiatives by government of India such as demonetization, direct benefit transfers, BHIM and many more intent to streamline the economy and curb corruption. The government approved for a proposal, under which there would be no charge for BHIM, UPI, and debit card transactions upto 2000. Incentivize behavioural change and bring down the costs of digital payments, referral and cash back schemes have also been launched for BHIM where users and merchants receive cash back. Additional initiatives like USSD and the *99# service have ensured that non-smart phone users are also on board the cashless wave. Demonetization has given a momentum to e-wallet services. According to a report “Securing the Cashless Economy”, by India witnessed 3X increase in the download of a leading mobile wallet app within 2 days of the demonetization announcement. 1 million number of newly saved credit and debit cards within two days of demonetization announcement. 30 per cent increase in app usage and 50 per cent increase in the download of wallets backed by leading banks. The above data clearly represent a reallocate towards a cashless economy. The smart phone uprising has led to the emergence of e-commerce, m-commerce and other services, including app-based cab aggregators, who support digital payments for use of various services. The value added services such as cash back, bill payment facilities, loyalty points, rewards and ease of use have resulted in course of such digital platforms. These developments have given rise to a modern payment mold.

5. Benefits of cashless economy

Cashless system brings down the cost connected with printing, storing and transporting of cash. The risk of money getting stolen or lost is nominal. Suppose if the card is stolen or lost, it is easy to block a credit/debit card or a mobile wallet remotely. It is also a safer and easier payment option while travelling. The ease of accomplishing financial transactions is probably the principal motivator to go digital. With the initiation of digital modes, one can avoid queue at ATMs, transact 24*7 and save time. Additionally for service providers, with the emergence of e-KYC, it is no longer necessary to know your customer physically as the payments model has overcome boundaries related to physical presence.

Payments done via mobile or computer applications can be easily tracked with a simple click. This allows users to keep a track of all their expenditure and manage their budget effectively. A lot of e-commerce websites offer huge incentives in terms of discounts, cash back, and loyalty points to the customers for opting digital transactions during shopping online. In a cashless economy, it is easier to track the black money and illegal transactions unlike cash based economy in which money does not come into the banking system. In case of digital transactions it is easy to track and monitor distrustful transactions as all the records are obtainable from the banks. In India, the low income people access credit through informal systems, through relatives or private lenders. Forcing them to adapt to cashless payment platforms instantly formalizes this world of informality and includes them in formal economy. Traders, small businesses, shopkeepers, and consumers frequently use cash as a means to avoid paying service tax, sales tax, etc. However, in a cashless economy where all transactions will be done through structured channel, through banks and financial institutions, they can be monitored by the government and appropriate actions could be taken against the evaders. This will result in more crystal clear transactions which in turn lead to fall in corruption in the economy.

6. Obstacles in implementing cashless economy in India

Utmost 60 per cent of Indian population belongs to rural region. Approximately a quarter of the rural public doesn't have mobile phones and a large proportion of them are computer illiterate. They are not comfortable using computers or mobile phones for dealings and rely on others for help. This occasionally leads to misuse of the accounts and draw off of funds, so greater part of rural mass prefer cash over digital modes. Roughly 90 per cent of the Indian labour market is informal. Most of them being employed in agriculture and manufacturing sector where on a daily basis wage is common. Under such conditions the informal labour market is heavily cash dependant. India is a country where 90 per cent of transactions are paid for in physical cash because cash facilitates making transactions unidentified, helping cover up activities from the government in a way that might help agents evade taxes and avoid rules and regulations of law. Security is another big hesitation regarding cashless transactions. Indians are suspicious of digital modes due to cyber security incidents such as phishing, scanning, website interference, defacements and virus code. Though several companies have come up

with low-priced smart phones still they are not within the means for most of the people in the country. Unless Indian government provides essential subsidy or affordable resolution cashless, economy would be a farfetched dream. Digital India experiences the threat of thefts and hacking of digital money instruments. The ATM cards, debit/credit cards, net banking solutions and even the transaction websites of the financial institutions and banks are hacked by the impish people who withdraw money by making replica of the instrument and changing the passwords. This has to be taken care of before going on digital India mission at full stretch.

7. Initiatives taken by RBI and government to depress use of cash

Government supports the mobile wallets. Mobile wallet permits users to immediately send money, pay bills, recharge mobiles, book movie tickets, and send material and e-gifts both online and offline. In recent times, the RBI had issued certain guidelines that allow the users to raise their limit to Rs.100000 based on certain KYC verification. Government has introduced UPI which will make electronic transaction much simpler and faster. Government has kept back surcharge, service charge on cards and digital payments; open bank accounts and ensure they are operational; eradicated the government fees on credit card transactions; reduction of interchange fee on card transactions; and increase in taxes on ATM withdrawals. Tax rebates for consumers and for merchants who implement electronic payments. Making electronic payment infrastructure completely safe and secure so that incidents of crimes could be reduced and people build up faith in electronic payment system. Build a culture of saving and faith in financial system among the rural poor.

8. Conclusion

Training regarding the cashless transaction methods is to be provided in urban parts of the country, too. Awareness is all well and good, but some will still need help to be aware of how to install and use digital payment systems. Although it would be impossible for India to become a cashless economy in the short time since demonetization, it is definitely something the country can look forward to. Making India cashless is like treating multiple unending societal diseases using just one cure.

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