



# A STUDY TO UNDERSTND CONCEPT OF CASHLESS TRANSACTION IN INDIAN CONTEXT

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## ABSTRACT

*The technology has spread to include internet banking systems, core banking solutions, mobile banking, prepaid instruments, credit and debit cards, and so on. At the same time, the electronic payment system is rapidly expanding. All of these indicators show that India is steadily but slowly progressing toward the RBI's aim of a cashless economy. In India, demonetization has compelled all consumers and businesses to accept and develop cashless digital payment solutions. The adoption of a cashless economy is dependent on a number of factors, including reach, availability, and awareness. This study examines the elements that influence customers' adoption of new digital payment systems in India's various regions. The produced paper is a nature descriptive research. The investigation was done out using secondary data collected from various sources. Secondary data was gathered from a variety of sources, including published books, articles in various magazines and newspapers, periodicals, conference papers, working papers, and websites, among others.*

**Keywords:** Payments, Transactions, Cashless, Money, Economy.

## I. INTRODUCTION

A cashless economy is one in which there is no cash flow within an economy and all transactions are completed using electronic media channels such as direct debit, credit and 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 urban India, credit cards and online payment systems are growing more popular, yet paper currency notes remain an important component of daily life. Revenue is vanity, cash flow is sanity, but cash is king, according to one saying. Any lawful instrument of transaction that is immediately negotiable and unrestricted can be defined as cash. We are the world's fourth-largest cash users. In India, the rate of cash to

GDP is the highest, at 12.42 percent. In India, the ratio of cash in circulation to private consumption is 20%, and card transactions account for 4% of personal consumption expenditure. Because the majority of people are illiterate, poor, and only conduct little transactions, they have bad banking habits. For them, cash is the most convenient and hassle-free kind of medium of exchange. A cash transaction is instantaneous and does not require the use of a middleman. Individuals and families benefit from the liquidity provided by cash. There's no need to be concerned about a computer system failing, the power going out, or a transaction being lost in the middle. Using cash has no additional costs compared to using debit or credit cards. Cash still accounts for 40% or more of all consumer transactions in even the most cashless countries, such as France and the Netherlands.

Cashless economies tend to have lower levels of corruption and black money. Almost every country is preparing for a cashless economy, and several have already made substantial strides. It's merely a global trend that India is attempting to catch up with.

## II. CASHLESS INDIA'S CURRENT STATUS:

- Demonetization has had an impact on cash-based informal sectors like as agriculture, real estate, and so on. Experts, on the other hand, believe that this is a short-term scenario with beneficial long-term repercussions.
- To get the economy back on track, the government is supporting a cashless economy because currency is being phased out.
- The World Bank assessed India's black money to be worth nearly a fifth of the country's GDP in 2010. It was a revolutionary step to switch from cash to cashless purchases in a country where 90% of transactions are conducted in cash.
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- In just two years, 250 million bank accounts have been opened under this scheme. According to RBI data, bank branches grew by 5% each year, but ATMs, debit cards, and card swiping machines doubled in four years, and online transactions grew 20 times in six years to 2016. All of these evidence points to a steady shift to a cashless economy. This change has been accelerated by demonetization.

### Need for Cashless Transactions

According to the Indian government, the cashless policy empowers the sector, resulting in an increase in employment and a decrease in cash-related fraud. Customers will now be able to save more money in

their bank accounts. Because they will have less hard cash in their hands, they will be more likely to disclose their exact income, resulting in a large reduction in income tax fraud. It will also eliminate cash transaction fraud and encourage international investors to invest in the country because this way of payment is secure. When this step was implemented in other countries, it was the appropriate thing to do because it was a step in the right direction. It was assumed that it drove the new payment system's modernization. Increased bank numbers result in lower transaction costs and a decrease in the high security of carrying cash. This bank contributes to the creation of a more manageable platform for customers to interact with and learn about the sector. Financial risk is also an important consideration when promoting the digital channel as a means of advancing the concept of a cashless economy. Although Indians have been using electronic payment methods for many years, the retail sector still relies heavily on cash transactions. They believe it is a more secure and convenient method of conducting business in the retail market.

Continuous innovation in banking systems, products, and services aids in the transition to a more cohesive environment. The MBPS (Mobile Banking & Payment System), which is directly related to digitization, is highlighted in this study. By highlighting critical gaps and exploring the problems and opportunities associated with e-banking deployment, the writers attempted to keep the analysis grounded in historical and present literature. The report clearly offers a new mobile banking system, called MBPS, a multitasking smartphone programme that uses artificial intelligence to facilitate numerous banking and payment processes with a single click. Similarly, it identifies several consequences and constraints that make subsequent moves difficult. Because the study is essentially theoretical, no credible theory has been proposed. The goal is to develop and propose MBPS through various digital banking channels, and to enter a competitive, innovative digital market. Finally, MBPS will generate great growth and potential that we may anticipate in the not-too-distant future, when mobile communication will outperform all other digital channels and products.

### III. CASHLESS TRANSACTIONS METHODS

The Digital India initiative is a major government initiative with the goal of transforming India into a digitally enabled society and knowledge economy. One of Digital India's stated goals is to be "faceless, paperless, and cashless." Various kinds of digital payments are offered as part of promoting cashless transaction systems and transitioning India into a less-cash society. The list is as follows:

#### 1. Cheque

The cheque is one of the most traditional or traditional means of cashless payment. Everyone is familiar with this strategy. This method entails writing a check to someone else for a certain amount. The check is deposited in the appropriate account. A clearing house is used by the bank to handle a payment. The entire cheque transaction is documented, and a payment document is produced. However, due to signature mismatches or insufficient funds in the bank account, cheque payments are occasionally dishonoured. You can prevent this difficulty by using other cashless payment options.

#### 2. Demand Draft

Another common form of cashless transaction is the demand draught. It's one of the safest ways to get paid from anyone. Because it is signed by the banker, a demand draught (DD) never defaults. The disadvantages of DD and cheque are that you must visit a bank to deposit a check and a demand draught. It takes longer for a check or a DD to clear.

#### 3. Online Transfer- NEFT or RTGS

The third and most straightforward method for making a cashless transaction is to make an online transfer utilising NEFT or RTGS. You'll need an internet banking account to make an online money transfer. Compared to Cheque or DD, online transfers via NEFT or RTGS are faster. Online transfers can be made from any location with access to the internet.

#### 4. Credit Card or Debit Card

Another cashless payment option is to use a credit or debit card. In comparison to other industrialised countries, India's use of credit cards and debit cards

remained restricted. However, credit card and debit card usage is on the rise these days. The lack of a swipe card facility (PoS) at the merchant end limits this payment option.

#### 5. Electronic wallets

Electronic Wallet, or E-wallet, is another cashless payment method available to individuals. From groceries to plane tickets, an e-wallet can be used to purchase products or services. Both the client and the merchant must have a smart phone with an active internet connection in order to utilise E-wallets. PayPal is the most well-known example of an electronic wallet. You can also use Payoneer, Transferwise, Skrill, PayZa, and other services in addition to PayPal. After creating an E-wallet account, you must link your credit or debit card to your E-wallet id. You can use an E-wallet to move money from one account to another or to shop online. It is the most basic cashless approach.

#### 6. Wallets for mobile devices

A mobile wallet is the next cashless payment option. Making a payment with a mobile wallet does not require a debit card, credit card, or online banking password. Simply use IMPS to load money into your wallet and spend it on the go. In your smart phone, you can download a mobile wallet app from the play store. Paytm, PayUmoney, Oxigen, Lime, MobiKwik, and other mobile wallets are examples.

#### 7. UPI Apps

UPI is a mobile payment system that enables you to conduct a variety of financial transactions using your smartphone. Without providing bank information, UPI allows you to transfer or receive money via a virtual payment address. Merchants can sign up with banks to accept UPI payments. To take UPI payments, the merchant would need a current account with a bank, just as a PoS machine. SBI Pay, ICICI Pocket, Axis Pay UPI App, Union Bank UPI App, PNB UPI, PhonePe, TranZapp, and others are examples of UPI Apps.

#### 8. Gift Card

The next cashless payment system is a gift card. A gift card is a pre-made card that may be bought from a shop or a bank. A gift card is loaded with a fixed

monetary amount that can be used to purchase any item from a certain vendor.

#### 9. Aadhaar Enabled Payment System

One of the better and most transparent cashless payment options is the Aadhaar Enabled Payment System (AEPS). AEPS is similar to a micro ATM in that it conducts transactions using a smartphone and a fingerprint scanner. It is necessary to link your Aadhaar card number to your bank account in order to use this service. AEPS can be used to accomplish transactions such as Aadhaar to Aadhaar financial transfers, cash withdrawals, and cash deposits, among others.

#### 10. Unstructured Supplementary Service Data

If you don't have a smartphone or access to the internet, you can use the USSD cashless approach. Mobile banking is a service that uses unstructured supplementary service data. You can utilise this service by dialling \*99# from any phone. You can accomplish everything that a person with a smart phone and an internet connection can do. Almost all banks accept USSD payments, including SBI, ICICI, BOB, Axis Bank, and PNB.

### IV. ADVANTAGES AND DISADVANTAGES OF CASHLESS TRANSACTIONS

#### The Benefits Of Going Cashless Include:

- **Saves Money and Time:** Companies and governments will become more efficient, allowing them to cut expenses by eliminating the need for human accounting labour. The costs of accounting and cash handling are extremely expensive.
- **Less cash means fewer crimes:** Businesses and people can also save money by avoiding other expenses. Theft frequently leaves a large hole in one's wallet. The risk of theft will persist as long as individuals carry cash, but it can be lowered by going cashless. This has an influence on the government because it reduces the amount of money spent on apprehending the criminals. Burglary and assault have decreased by roughly 10% in countries like the United States when the

government switched to electronic transmission for social welfare payments. The government, on the other hand, must take steps to combat online scams and identity theft.

- **Coin and paper currency production costs are reduced:** Coin and paper currency production is an expensive enterprise, and most paper currencies have a lifespan of roughly 6 years. As a result, turning electronic lowers production costs.
- **Less Cash, More Data:** The government can use data from cashless transactions to develop and analyse policy. Officials can predict or discover patterns of activity using such data, and use this knowledge for urban planning in areas such as energy management, housing, and transportation.
- **Increased Spending Aids Economic Growth:** When a country moves toward a cashless economy, economic growth is predicted to increase. Higher card usage in countries like the United States contributed to global consumption of around US\$296 billion from 2011 to 2015, a 0.1 percent increase in GDP. Shopping online is simple because a variety of payment methods are available, ranging from credit and debit cards to net banking. While making cashless payments, more spontaneous purchases can be observed. Singapore, for example, has seen a 0.1 percent increase in GDP, which amounts to around S\$400 million every year. As individuals spend more, businesses require more workers to meet the increased demand for goods and services, which results in additional job openings for the unemployed. Furthermore, being cashless has health implications. Germs have a higher likelihood of spreading while using tangible cash. Germ transmission can be reduced by reducing the use of paper currency.

#### Disadvantages of Cashless Payments:

Here are some of the issues that are preventing India from becoming a cashless society:

- **Cyber security:** In October 2016, it was thought that the information of over 30 lakh debit cards had been compromised at ATMs. Customers were encouraged to reset the PINs on their ATM-cum-debit cards after it was suspected that the card and PIN credentials had been compromised. New cards were also issued under strict conditions. Only a month later, the Prime Minister is urging people to make the transition to a cashless world. Is cyber security implemented? It takes several months to reclaim someone's hard-earned money from the banks if a card is cloned. How can we be certain that swiping cards at small shops and sellers will not expose our card information?
- **Network connectivity:** Since the announcement of demonetisation, people have been attempting to use more card transactions in order to avoid the dreaded trip to the bank and conserve every last bit of hard cash on hand. However, a rush in card transactions has resulted in connectivity problems. Several consumers have had difficulties while waiting in line to pay for a transaction at a store when the card machines failed owing to a network overload. Before imagining a cashless world, connectivity difficulties must be addressed.
- **Price of the internet:** In India, the cost of using the internet is still quite high. There is no Wifi in public locations, and if people's monthly data packs aren't refilled, they won't be able to connect to make online payments. Even with e-wallets, internet access is required. To persuade individuals to do cashless transactions, the cost of the internet should be reduced, and free WiFi should be available in public areas.
- **Charges on credit cards, as well as internet transactions:** Have you heard of convenience fees? Of course, if you conduct business over the internet, you would have. When a vendor offers an online payment option, they may charge additional fees. Shouldn't this mandatory fee on online transactions be removed now that the government is forcing us to go cashless?
- **Non-tech savvy:** While the younger generation is engrossed in their phones and devices, computer literacy among the over-50s remains low. Many individuals are hesitant to use computers or cellphones and rely on their children to do so. Before establishing a cashless society, people must be educated on how to conduct transactions using their phones.
- **Smart phone affordability:** While several businesses have introduced new, low-cost phones, they are still out of reach for the majority of the country's population. The government could provide more cheap options for consumers to purchase cellphones for cashless transactions.
- **Infrastructure/phone battery:** When it comes to supporting a mobile society, India still falls short. If the phone battery runs out, finding a public charging station is exceedingly tough. Even in Tier 1 cities, metro stations and railway stations lack this infrastructure. So, what if you have cash in your pocket but have run out of battery after a long day on the road? Is there any other option at this point?
- **Inadequate bank accounts:** The majority of people still lack bank accounts. Most families have only one account, which limits the number of cards each family member can have. Even a family of four cannot rely on just one credit card to cover all of their expenses.
- **Internet censorship:** In places like Jammu and Kashmir, the internet is frequently the first thing to be censored. In such conditions, neither cards nor e-wallets can be used for transactions. Are there any other options?
- **Are financial institutions prepared? :** A proper infrastructure is required for a cashless society. To handle the growth in e-transactions, banks must be adequately prepared. In order to open more bank accounts, infrastructure is also required.
- **Encourage people to spend:** Using a credit card encourages people to spend more. Using cash helps people keep track of their spending, but using a credit card offers them a free hand. Not

just credit cards, but also debit cards convey the idea that you may make a payment right away.

A cashless society is a wonderful concept, but it must be approached with caution. There is a prerequisite to adopting such actions, without which a move like this would be more destructive than helpful. For the time being, a cashless society appears to be a faraway goal, but a society with less currency can be welcomed.

## V. INDIA'S FUTURE CASHLESS PAYMENT OPPORTUNITIES:

Smooth, simple, and secure payment processes will aid in behavioural changes and the speedier adoption of digital payments and banking among the unbanked. Increased competition will benefit the environment and provide more options for customers as new firms enter the market, each with a somewhat different take on the market and different business methods. A wider pie with more competitors is undoubtedly beneficial to the evolving dynamics of India's payments industry, which is still in its infancy.

Cash continues to dominate Indian consumption, with cards accounting for only 5% of total personal consumption expenditure. In wealthy countries, 30-50 percent of purchases are made with credit cards. As a result, there is a lot of room for expansion. These are being supplemented by the rapid rise of smartphones, Internet usage, and e-commerce; card payment volumes have increased by more than 25% year over year. This trend is expected to continue, encouraged by the continuous rise in debit card activation and usage; debit card transactions have been increasing at a rate of 31% every year.

Intense rivalry and strategic collaboration among existing and new market participants, such as payments and small banks and wallets, will help to scale up acceptance while also encouraging more creativity, innovation, and customer choice. According to him, the payments industry in India will experience exciting times in the future as all players and regulatory agencies work together to attain a "less-cash reliant" and eventually "cashless" society.

This year, the credit card business in India is seeing a rise in consumer acceptability. According to the Worldline India Card Payment Report 2014-15, credit

card usage increased by 9.8% in the previous year. Worldline India is the country's leader in payment and transaction services. Alternative payment methods such as mobile wallets and prepaid debit cards accounted for 3% of all digital transactions. Over the last few years, this industry has been gradually expanding. Card transactions, including debit and credit card transactions, are on the rise. In India's payments industry, there are some interesting forces at work.

## VI. CONCLUSION

The report concludes that the government of India made a good and strong judgement by implementing a cashless transaction economy. The concept of cashless transactions is widely accepted. It aids in the fight against large illegal or unethical economic activities such as terrorism, corruption, and money laundering, among others. However, the biggest issues with cashless transactions in India are cybercrime and unauthorised access to client data. As a result, it's critical to improve internet security in order to protect against cyber criminals. Customers and small businesses are exposed to a significant level of danger and difficulty when using cashless transactions. The fundamental reason is that rural areas have a low literacy rate. The government should be educated on the benefits of cashless transactions. The government strives to change people's minds about risk factors. Cashless transactions aid in the development of a stronger Indian economy. As a result, everyone should be able to access and use digital transactions. The government will need to put in more effort on a financial literacy campaign from time to time to educate the public about the advantages of electronic payments.

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