

Cash to Cashless Economy in India: Importance and Challenge

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Abstract – Centre is making a big push for cashless economy by taking step like demonetization, rapid growth of e-payment start-ups in the country and launch of unified payment interface to facilitate cashless transaction. Despite these steps, many challenges are faced by Indian economy like cash driven economy, unbanked Indian, lack of awareness, lack of internet availability, illiteracy, insecurity so which could be tackled by government and RBI by taking necessary steps. India should learn from developing countries which have reduced dependence on cash like Kenya where mobile money has spread much faster than India. So overall government should improve security measures, invest in digital infrastructure, change attitude of Indians towards digital payments through digital literacy campaign.

Key words: Cashless Economy, Cashless Transaction, Cash etc.

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INTRODUCTION

Cashless economy is one where electronic channels like debit card, credit card, electronic merchants, payment mode like NEFT, RTGS, IMPS are used for transaction due to minimum use of physical cash. As the high denomination currency notes make about 85 per cent of the total cash circulated in India so cash is like water a basic necessity without which survival of Indian is a challenge. Despite introduction of e-banking channels like internet banking, mobile banking, NEFT, RTGS Indians are dependent on cash transactions which is 97-98 per cent of all transaction and in 2015, 233 million Indian were unbanked and government announced Pradhan Mantri Jan Dhan Yojana to make it easy for people to open new account. Despite all these efforts, 40 per cent of the Indian population is unbanked or "outside the ambit of formal banking". Secondly, 75 per cent transaction of Indians was cash based while only 20-25 per cent transaction of developed nations like US, Japan, France, and Germany was in cash. The main reason of cash based economy are less acceptance of cash by small shopkeepers like kirana stores, existence of corruption and black money and tax evaders, Then as on Nov. 8, 2016, Prime Minister Narendra Modi announced the demonetization and scrapped the use of 500 and 1000 rupee note to push Indian towards cashless economy.

REVIEW OF LITERATURE:

Ramya et.al (2017) studied about "cashless transaction: modes, advantages and disadvantages". It highlights that RBI is taking several steps to encourage payment and settlement facilities for

making less cash saving. Digital transaction bring in better transparency, scalability and accountability. It also shows that convenience, discount, tracking records, budget discipline, and lower risk, small gains are advantages of cashless transaction. Higher risk, difficult for un-tech savvy and overspending are disadvantages of cashless transaction.

Garg and Panchal (2017) studied about "Introduction of cashless economy in India 2016: benefits and challenges". For this study, data has been collected from Delhi region and analyzed by percentage. Response shows that cashless economy helps in curbing black money, counterfeits fake currency, fighting against terrorism, reduce cash related robbery, helps in improving economic growth of our country. Major hindrances are illiteracy rate, attitude of people and lack of efficiency in digital payment.

Deepika kumara (2016) studied about "cashless transaction: methods, applications and challenges." This paper highlights that authentication of user is also a big challenge for cashless transaction and generally multilevel authentication, token based authentication and biometric authentication method are used for security of cashless transaction. So hacking is major issue for cashless transaction which should be resolved.

Akinola (2012) studied about "cashless society, problems and prospects, data mining potentials. Through data mining, a model for extracting knowledge from transaction data is prepared. It shows that firstly transaction data are extracted from

financial houses servers then data selection and preprocessing is done then data transformation, data mining using artificial neural network and evaluation of data mining result is used by government and financial houses for effective management and administration.

OBJECTIVES OF THE STUDY:

1. To know the modes of Cashless Transaction.
2. Importance and challenges of cashless economy.
3. Analyze the future trend of cashless economy.

RESEARCH METHODOLOGY:

The study is based on secondary sources of data/information. Different books, journals, newspapers and relevant websites have been consulted in order to make the study an effective one. The study attempts to examine the modes and Importance of Cashless Transaction in India.

DIFFERENT MODES OF CASHLESS TRANSACTION:

1. **Cheque:** Cheque is the oldest mode of cashless payment. Under it, a cheque is issued to someone else for specific amount. After deposit of cheques into bank, payment is processed through clearing house.
2. **Demand Draft:** Demand draft is the safest option to receive payment from someone. Demand draft is signed by banker so no chance of default. Both these mode require need a visit to bank.
3. **Online transfer of funds:** Now money can be transfer one account to another through NEFT and RTGS. National Electronic Fund Transfer and Real Time Gross Settlement is used for transfer from one account to one and many other account. The basic difference is, in NEFT money is transferred in batches which takes predefined time but in RTGS, money is transferred on the spot without waiting time.
4. **IMPS:** Immediate Payment Service has been started by national payment corporation of India. It is immediate money transfer way through mobile phones.
5. **Digital Wallets:** E-Wallet is mobile based application which can be downloaded from app store and can be assessed through mobile phones. Currently HDFC, ICICI, SBI and Axis bank have launched their e-wallets app like Buddy, Lime, Payzapp. Paytm,

Mobiwik, free charge, Reliance Money also offer e-wallets. It is cashless method for fund transfer and online shopping.

6. **Gift Card:** It is readymade card and can be purchased from merchant and bank. But with this card, you can purchase goods from specific vendor.
7. **Plastic Card:** Now cards like debit card, credit card, VISA, American Express are available to consumers for cashless transaction. Debit card is used to purchase goods and services at POS up-to amount present in bank account. Credit card allows cardholders to purchase goods and services up-to limit of credit specified by bank. Prepaid card are issued by bank and non-bank entities. Firstly customer load money on prepaid card then use it for purchasing goods and services, withdrawal through ATM etc.
8. **Aadhar Enables Payment System:** By linking aadhar card to bank account, you can do payment at merchant store with a finger scanner at the merchant store but used for micro payment not more than Rs. 4000.

Other E-Banking channels are internet banking, mobile banking and telephone banking,

IMPORTANCE OF CASHLESS ECONOMY:

1. **Decrease in Cost:** Due to non-printing of notes, cost of printing of paper and other charges on notes will be saved at present. RBI spends 12000 crore on replacement of Rs. 500 and rs. 1000 note.
2. **Increase in Tax Revenue:** Due to of electronic receipts and payments, a detailed record transactions done by small merchants, professional will be available so many more people will come under the preview of tax which will reduce tax avoidance and money laundering. So government tax revenue increase will benefit society at large.
3. **Decrease in Corruption and Black Money:** Increase in digital transaction will curb generation of black money and reduce corruption. The modus operation for corruption is cash but if bribe will be paid through bank account then every detail of bank account will be checked by income tax department so bribe at large will be reduce. Payment to corrupt official through e-wallet is not possible and unaccountable political funding will also reduce.

4. **Decrease in Risk:** Carrying large amount of cash will increase risk due to robberies so cashless economy will discourage theft and other cash related crimes. Control over Fake Currency: Due to digital transaction, notes become useless and fake currency will not be made.
5. **Economic Growth:** Reduction in cost of banking services, improvement in monetary policy, improvement in government revenue due to greater efficiency and transparency to the system will boost economic growth of the country.

CHALLENGES TO CASHLESS ECONOMY:

1. **Cash driven Economy:** Nearly 97-98 per cent transactions take place in cash. About 90 per cent workforce in unorganized sector, who produces nearly half of the output in the country prefers cash based transactions so cashless of this sector is not easy.
2. **Unbanked Indian:** As per report by Prince Waterhouse Cowper India in 2015 that 233 million population is unbanked and after Jan Dhan Yojana, 167 million Indians are not having bank account. So despite government and RBI efforts to increase access to banking such as giving license to payment banks, allowing India's post offices, Centre acknowledged in June this year that 40 per cent of the country is outside the ambit of formal banking.
3. **Lack of Awareness:** Lack of awareness regarding technological developments as most of Indians are not technology friendly like smartphones and computers. For people in rural areas, mobile is still a mode of communication only.
4. **Lack of Infrastructure:** For promoting cashless transactions, proper infrastructure is required like there are 1.44 million POS terminals installed by various banks. Up to July 2016, as per RBI report, swipe machines are not available on mostly retailers' shop. Mostly banks are lacking in adoption of technology because of which customer's service is not up to mark.
5. **Lack of Internet Usage Facilities:** As per report from "Internet and Mobile Association of India and market research" internet users in India is 450 million. So internet penetration in India is currently 31 per cent. But in urban India out of 444 million population, 269 million Indians are using internet. But in rural India, out of 906 million, only 163 million are internet users, so 750 million people in rural

India are not internet users and without access to internet cashless transaction cannot be done. So easy access to internet in rural area can increase the usage rate of internet.

6. **Reducing Charges:** Extra charges on online transaction is also the main reason for less use of online banking like charges for online ticket booking. So banks also charge some convenience fee which also affects cashless economy.
7. **Illiteracy:** Around 30 per cent population of India is illiterate and from those who are literate, many Indians do not know about usage of technology like computer, smartphone so they are far away from using e-banking channels for banking transaction.
8. **Insecurity:** Distrust in digital transaction is also a reason for not using e-banking. Hacking of ATMs, loss of personal information, data breaching in internet banking are main insecurity reasons so stringent policy and provision should be made by government and RBI. There will be a need for competent encryption technologies at physical POS for reducing cybercrime.

FUTURE TREND OF CASHLESS TRANSACTION-

The payment industry in that one keeps on growing with the ever changing consumer attitudes and the needs of the businesses. A revolution in this area is a continuous process. Cashless transaction is increasing day by day.

FUTURE TREND OF CASHLESS TRANSACTION IN INDIA (SOURCE: RBI BULLETIN)

System	Volume (million)				Value (billion)			
	2017-18	2018	2018	2018	2017-18	2018	2018	2018
	1	2	3	4	5	6	7	8
LRTGS	124.46	10.40	11.86	10.97	1,467,431.99	131,257.97	142,152.55	130,030.07
1.1 Customer transaction	120.71	10.14	11.58	10.70	1,036,698.74	91,806.84	97,944.08	91,162.92
1.2 Interbank transaction	3.72	0.26	0.28	0.27	130,426.03	12,230.50	13,912.67	11,922.19
1.3 Interbank clearing	0.024	0.002	0.002	0.002	300,307.22	27,220.63	30,295.81	26,944.96
2. CCIL Operated Systems	3.50	0.31	0.32	0.25	1,074,802.02	93,394.77	115,017.56	89,962.85
2.1 CBLO	0.20	0.02	0.02	0.00	283,307.58	25,897.95	32,597.57	2,693.59
2.2 Govt. Securities Clearing	1.12	0.09	0.09	0.09	370,363.78	30,728.67	39,571.40	53,489.45
2.2.1 Outright	0.92	0.07	0.07	0.06	113,998.80	7,560.09	7,701.86	7,378.19
2.2.2 Repo	0.199	0.017	0.021	0.016	256,364.98	23,168.58	31,869.53	22,603.13
2.2.3 Tri-party Repo	-	-	-	0.02	-	-	-	23,508.13
2.3 Forex Clearing	2.17	0.20	0.21	0.16	421,130.66	36,768.15	42,848.59	33,779.81
3 Paper Clearing	1,171.31	88.05	98.90	86.62	81,934.93	6,345.80	7,025.57	6,226.16
3.1 Cheque Truncation System (CTS)	1,138.05	87.28	97.80	85.67	79,451.24	6,289.79	6,948.47	6,153.57
3.2 MICR Clearing	-	-	-	-	-	-	-	-
3.2.1 RBI Centres	-	-	-	-	-	-	-	-
3.2.2 Other Centres	-	-	-	-	-	-	-	-
3.3 Non-MICR Clearing	33.27	0.77	1.10	0.95	2,483.68	56.01	77.10	72.59
4 Retail Electronic Clearing	5,467.29	552.46	612.11	591.65	192,017.98	20,328.48	22,035.92	21,034.97
4.1 ECS DR	1.54	0.04	0.04	0.03	9.72	0.31	0.25	0.25
4.2 ECS CR (includes NECS)	6.14	0.52	0.66	0.47	118.64	10.28	16.03	12.14
4.3 EFT/NEFT	1,946.36	181.01	209.04	194.21	172,228.52	18,015.50	19,227.03	18,246.68
4.4 Immediate Payment Service (IMPS)	1,009.80	135.74	154.62	149.94	8,924.98	1,256.40	1,403.07	1,347.57
4.5 National Automated Clearing House (NACH)	2,503.46	235.15	247.75	246.99	10,736.12	1,046.00	1,389.55	1,428.33
5 Cards	13,358.62	1,300.42	1,424.97	1,362.14	38,214.64	3,613.73	4,042.86	3,839.04
5.1 Credit Cards	1,412.97	139.03	161.97	146.65	4,626.33	464.72	565.96	519.94
5.1.1 Usage at ATMs	7.81	0.80	0.91	0.80	36.68	3.72	4.18	3.76
5.1.2 Usage at POS	1,405.16	138.23	161.06	145.85	4,589.65	461.01	561.78	516.18
5.2 Debit Cards	11,945.65	1,161.39	1,263.00	1,215.49	33,588.31	3,149.01	3,476.90	3,319.10
5.2.1 Usage at ATMs	8,602.26	798.65	869.61	838.92	28,987.61	2,690.60	2,933.92	2,778.69
5.2.2 Usage at POS	3,343.39	362.75	393.39	376.57	4,600.70	458.41	542.98	540.41
6 Prepaid Payment Instruments (PPIs)	3,459.05	357.86	420.20	394.17	1,416.34	177.49	221.28	185.19
6.1 m-Wallet	3,025.98	324.16	368.45	347.32	1,086.75	151.02	187.86	161.08
6.2 PPI Cards	432.63	33.70	51.75	46.84	310.41	26.47	33.42	24.11
6.3 Paper Vouchers	0.44	0.00	0.00	0.00	19.19	-	-	-
7 Mobile Banking	1,872.26	489.51	559.36	573.02	14,738.54	2,174.50	2,470.97	2,458.59
8 Cards Outstanding	898.56	1,024.22	1,041.28	1,035.64	-	-	-	-
8.1 Credit Card	37.48	41.78	42.68	43.24	-	-	-	-
8.2 Debit Card	861.08	982.45	998.61	992.40	-	-	-	-
9 Number of ATMs (in actuals)	222,247	221,492	220,154	220,002	-	-	-	-
10 Number of POS (in actuals)	308,306	339,336	345,055	351,059	-	-	-	-
11 Grand Total	23,584.20	2,309.49	2,568.37	2,445.79	2,555,510.68	227,897.61	260,199.94	224,333.30

Note: data for latest 12 months period is provisional

RBI BULLETIN JANUARY 2019

According to RBI Bulletin Cashless Transaction in India increased day by day. From different transaction system E-wallet (PPI) system is going to be more popular, the statistics in report shows that, in Sep 2018 and Oct 2018 total value transaction done using E-wallet was 177.49 and 221.28 (Rs. In Billion) respectively and in Nov 2018 it is 185.19. According to the survey conducted by Cash-karo India (cash-back and coupons site), After Demonetization i.e. from NOV-2016, E-wallet payment method is more preferred by customers than any other payment methods. According to this survey, 1% users preferred cash as payment method, 18% for debit/credit cards, 23 % for Net banking and 59% users preferred E-wallet as payment method. And in future also E-wallet system will be more preferable.

CONCLUSION:

However, the profits of this move have now started filtering in with more and more people switching to digital modes of accepting and making payment. India is progressively transitioning from a cash-centric to cashless economy. Digital transactions are observable, therefore easily taxable, leaving no room for the circulation of black money. The whole country is going through the process of modernization in money transactions, with e-payment services gaining unmatched momentum. A large number of businesses, even street vendors, are now accepting

electronic payments, prompting the people to learn to transact the cashless way at a faster pace than ever before.

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