

CASH CENTRIC ECONOMY TO A CASHLESS ECONOMY

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ABSTRACT

Improving Indian economy's dependence on cashless economy is desirable for a variety of reasons like curbing corruption and improved economic performance. This article focuses on impact and importance of cashless economy and helps in understanding the Factors that determine transition to a cashless economy. This article also examines the advantages of cashless economy and efforts that government has put towards cashless economy. This article is based on secondary data collected from government reports, magazines and newspapers.

KEYWORDS: Cash Centric Economy, Demonetization, Digital Payments.

Introduction

Demonetization resulted in creating business opportunities and jobs with making economic transactions and payments uncomplicated. The government has launched the schemes like Pradhan Mantri Jan Dhan Yojana, (2014), Lucky Grahak Yojna, Digi Dhan Vyapaar Yojna, Digital India Programme (2015) for promoting payments through cashless ways and empower the nation for digital transactions. Cashless economy is all about transformation from the paper money to digital money in which there is enhancement in the transparency of the money flows supported by the third party which can be government, public or private sector which helps you to transact the money whenever needed. Swapping to electronic transfers is considered advantageous for economy as it helped in diminishing corruption and black money, money laundering and financing terrorism.

Cashless Economy

Cashless economy means economy that operates predominantly on plastic or digital money rather than cash or money in paper form. To encounter black money, fraudulent money, corruption and terror financing, reductive use of paper money is one of the contemplated measures. Government encourages cashless transactions like mobile banking, Ru-pay cards, UPI, USSD and other digital technologies to boosted growth, expanded opportunities and improved service delivery. As result of broader use of digital economies and cashless transactions, developed countries face lower corruption issues compared to developing countries. Where china stands at 77th rank, Russia at 135th rank, India stands at 81st position among 180 countries in the global corruption perception index for 2017. This inconsistency shows that there is a negative relationship between the digital transaction and corruption. Contribution by RBI by introducing "Payments and Settlement in India: vision 2018" has aided in electronic transactions for medium and long term.

Factors Determining Transition to a Less Cash Economy

- Demonetization implemented on 9 November 2016, has caused an increment in digital transactions up to 250% can be considered as a major factor determining cash less economy.
- Government efforts to incentivize and support cashless transactions through marketing and providing discounts and schemes and discourage cash payments.

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- Perceived risk is negatively correlated to electronic payments, which leads to contribution to decision making of customers.
- Literacy rate, availability of E-payments tools, convenience, consumer awareness, technological developments and government intervention, schemes and incentives are also factors affecting digital transactions.
- Financial and economic security over the electronic channels provided by public and private institutions is essential to encourage the cashless transaction among users.
- Mobile wallets like Paym, PayU, PhonePe, BHIM UPI have brought remarkable changes in payment methods, and it is predicted that a large number of Indians may shift straight from cash to mobile wallets and plastic money in coming years.
- Banks and other financial institutions should constantly and considerably invest in technological improvements for promoting consumer security and making digital transaction simple.
- Tax administration is needed to be rebuilt by the government to help small businesses turn their focus on digital payments rather than fear of tax inspections.
- A crucial inflection point is being currently faced by Indian economy which, if looked after aptly and favorably, can bring a positive change in people towards cashless transactions.
- Availability of infrastructure facilities and increase in the use of mobile phones with internet connectivity will improve cashless transaction volume.

India in Regard to Other Countries

- According to a report by Counterpoint Research in February 2016⁽⁸⁾, India has become the second largest smartphone market in the world with 220 million smartphone users resulting in offering a wide way to make digital payments.
- Currency in circulation in India is higher than many developing and developed countries. In 2015, the share of cash in circulation in the economy as a percentage of GDP of India was 12.3% compared to 3.8% in Brazil, 5.6% in South Korea and 1.7% in Sweden. Brazil and China have much lower usage of cash for settling payments as compared to India.
- In 2016, more than 68% of the transactions in India were settled in cash, one of the highest in the world after Indonesia and Russia. Other developing countries such as Thailand, Brazil and China have much lower usage of cash for settling payments as compared to India.
- As per 2015, in India cash consumer payments was 78%, in comparison to other countries like in US, it was 20% and in UK it was 25%.
- Top 3 countries in which cashless transactions are done is Singapore with 61%, Netherlands with 60% and France with 59%, where India adopts only 2% of cashless transactions⁽⁹⁾

Merits of a Cashless Economy

Cashless society offers many benefits to the government and the public:

- **Tracking of Transactions:** It becomes uncomplicated to identify the amount of cashless transactions executed digitally and cash flow done by government and general public, through the way of electronic media.
- **Convenient Approach of Payment:** The cashless economy provides various benefits to businesses and public such as fewer amounts of risk associated, time saving and contraction in transaction cost which is considered as biggest motivator.
- **Taxation:** Tracking of transactions helps in filing income tax returns, lesser usage of hard cash in business leads to lesser scope of hiding income at home and avoiding income tax.
- **Lower Risk of Cash:** cyber security being taken care of by various innovative techniques, online payment is proved to be less risky compared to hard cash transactions as there are safety issues with physical cash like risk of theft.
- **Reduction in Expenses of Printing Paper Money:** Government does expenditure of approx. Rs 4.18, Rs 2.5 and Rs. 1.5 on each 2000, 500 and 100 rupees note respectively, such cost can be saved if the economy moves towards a non cash economy and making payments via digital mode rather than hard cash.

- **Going Digital, Gets Discounts:** various offers are provided by companies in order to boost digital payments such as, cashbacks, incentives, discount and promotions, freebies, insurance coverage, less amount of tax and facility of returning products.
- **Decrement in Offensive Activities:** Many non-ethical and illegal activities like prostitution, savage of income tax returns, black money, fraudulent money, speculation, corruption and terror financing, and money laundering are being transacted at hard cash, which can be controlled by using digital mode of payments.
- **Leverage for Banking Sector:** With increment of digital transactions, people use less amount of hard cash resulting in more of cash retained in bank accounts which can be used by banks in creating business and earning interest.
- **Translucent and Detector for Government:** Records of digital transactions can be easily monitored by the government as records and proofs are maintained in electronic device.

Attempts by RBI and Government to Boost Cashless Economy

- Government has also unveiled two schemes - Lucky Grahak Yojana and Digi Dhan Vyapaar Yojana, Digital India Programme, Lucky grahakyojana - for customers and traders alike to promote mobile banking and e-payments.
- Government on its part is working at various levels to improve cashless transactions by providing incentives and discounts of digital payment methods.
- Pradhan Mantri Jan-DhanYojana helps people in opening bank accounts who does not own one.
- Central Bank and finance ministry introduced Financial Literacy Centres (FLCs) a foundation of the PMJDY, which provide customized literacy programmes to impart awareness about banking schemes and digital payment mode to youths.
- National Payments Corporation of India, introduced programme named Unified Payments Interface which makes cashless transactions very effortless and straightforward.
- GST has also uplifted digital transactions as government has also acquire cashless transfers.
- Government also uses various Social-media marketing techniques to promote cashless transactions, e-banking, more use of electronic card, promote plastic money, point-of-sales (PoS) machines and digital wallets.

Conclusion

India is the 4th largest user of cash in the world, alongside the whole country is in process of adapting the process of modernization in business transactions, with e-payment services gaining popularity. India is moving towards cash rigid economy from cash focused economy. Digital transactions are easily identifiable, and taxable, which gives no space for black money in market and corruption in the economy. A huge amount of long and small businesses, street vendors, and restaurant owners are now accepting non cash payments, discounts and offers on digital payment promotes the people to learn, to transact digitally at faster speed. Financial education programmes and literacy campaign provided by government helps impart knowledge and create awareness about financial management and electronic payments. Demonetization plays a wide role in giving prominent space for digital payments in market.

But it is also notifiable that Moving Towards a Cashless Economy Is Not that easy backed by many reasons like, habit of using cash, restraint of people to changes, lack of compelling value proposition, less literacy rate, complexity of using cashless methods, and fraud or hidden charges. A report by Google India and the Boston Consulting Group states that by the year 2020, cashless transaction will increase by 10 times, approximately by \$500 billion. Which may result in cash based payments expected to fall by 40%.

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