

CHALLENGES AND PROSPECTS OF CASHLESS ECONOMY IN INDIA

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ABSTRACT

In any economy, cash is a legal common way for all kinds of material transaction. Cashless society is the concept in which transactions are take place through digital mode and use of hard cash remain very less. India is passionately trying to move towards a cashless transaction economy by minimizing the use of physical cash. Basic aim to build cashless economy is to eliminate black money. The best way to move towards cashless economy is only the digitalization of all the transactions and promoting the use of plastic money and developing the digital transaction habits among people. In digitalization, transactions are made through debit cards, credit cards, cheques, NIFT, RTGS and any other mode to direct transfer the money from one account to another. This research paper highlights not only the efforts of Indian Government in promoting cashless transactions but also the hurdles in the path.

Keywords: Cashless Economy, Digitalisation, India, Plastic Money, Net Banking.

Introduction

Cash may be treated as the blood of life of India. Indeed cash is a legal medium to perform all the transaction in an economy. In India, currency are issued and controlled by Reserve Bank of India. No one may expect to perform any activities to run the life or any economy without the cash. Cashless Economy is a situation where there is no cash flow in the economy and not only all the transactions are done through electronic medium e.g. debit cards, electronic cleaning, credit cards, point of sales (PoS) machine, direct debit, digital wallets etc. but also payment systems will be through electronic medium in India e.g. IMPS (Immediate Payment Service), NEFT (National Electronic Funds Transfer) and RTGS (Real Time Gross Settlement). India has highest cash to GDP ratio i.e. 12.4% in the world. India also has highest currency in circulation in economy in the world i.e. 76.5 billion as compare to 34.5 billion in the USA. After analytical analysis we find some important reason behind the preferring cash by Indian in comparison to electronic transactions such as various banking leaves, no extra cost for cash transaction, flexibility and simplicity of cash transaction, fear of crashing the computer and losing the transaction, lack of proper and continuous internet connection, large unorganised sector having a large no of retailers and service providers, lack of proper education and awareness among consumers regarding utilisation of cashless mediums.

Objectives of the Study

- To go through the concept of cashless economy.
- To find out the need of cash and challenges for digitalization.
- To point out the current position of cashless India.
- To analyse the opportunities and merits after adaptation of cashless economy in India.
- To point out the challenges and roadblocks which has to be faced by Indian Government to establish cashless economy?
- To find out the initiative taken by Indian government towards digitalization of Indian economy.
- To point out the future trend of cashless transaction in India.
- To make suggestion for the future prospects of cashless India.
- To analyse the merits of moving from a 'cash base economy' to a truly 'cashless economy'.
- To point out ways to overcome the challenges and roadblocks.

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Research Methodology

This paper is a descriptive and exploratory nature based on secondary data collected from internet, RBI booklet, report published by NITI Aayog, various journals, and other publications of professional. It has been tried to examine the merits of a cashless economy as well as to identify the challenges has been faced to convert cash driven economy to cashless or digital economy.

Various Types of Cashless Methods and Payments

- **Mobile Wallet**

It is basically a digital wallet which is available as app on the mobile phone which have to be downloading to use this wallet. We may make payment either online or offline. We have to transfer the money into these wallets through debit or credit cards or net banking. Thereafter whenever we have to pay or purchase online, we have to use this wallet because we have not to furnish the details of debit or credit card every time.

- **Plastic Money**

This is the money made by plastic i.e. debit cards or credit cards or prepaid cards. Prepaid cards may be issued by non banking firms also and may be physical or either virtual. These cards are purchased and recharged time to time via Net banking and may be used for digital purchasing and as well as it may be given as gift cards. These cards are normally used either to withdraw money from ATMs or to swap for purchase or to pay online or to pay at PoS terminals at merchant outlets e.g. shops, restaurants, fuel pumps etc.

- **Net Banking**

It is simply a method of transfer of funds through either computer or mobile phone from one bank account to another account or to credit card or debit card or a third party. For transfer of money we need a internet connection and we have to create our log in ID for the same. We have to log in our account and may transfer money via national electronic funds transfer (NEFT), real-time gross settlement (RTGS) or immediate payment service (IMPS). We have to bear a nominal transaction cost. According to RBI, every mode of cashless fund transfer may be complete by using cards or mobile phones as prepaid payment instrument such as Net accounts, Smart cards, Mobile Wallet, Magnetic Stripe Cards, Mobile Account or paper vouchers etc. all of these prepaid instrument may be broadly classified as the following four types:

- **Open Wallets**

In this wallet we may either buy goods and services or withdraw cash from ATMs or bank or transfer the money to another account or send money to any mobile number which is linked with.

- **Semi-Open Wallets**

This type of wallet has some restriction because we may not be able to withdraw cash from this wallet and we are bound to spend whole the money what we have loads e.g. Airtel or Ola money allows us to make transaction with those merchants only who have a contract with Airtel or Ola.

- **Closed Wallets**

In this type of wallet certain money is locked with the merchant in case of cancellation of the order or returning of the goods or gift cards e.g. Flip kart and Book My Show etc. In spite of the restriction it is quite popular with e-commerce companies.

- **Semi-Closed Wallets**

This type of wallets allows only either to buy goods and services from listed vendors or to perform financial services at listed locations instead of allowing cash withdrawals or cash redemption e.g. Pay tm.

Opportunities or Merits or Benefits of a Cashless Economy in India

- **Tackling Black Money**

The basic and most important merits of cashless economy is that there is no possibilities of black economies or underground markets which normally damage the national economy, because there are record of all the economic transactions in the digital form. It also restricts conduction of criminal activities or transactions such as human trafficking, drug trafficking, terrorism etc. In case of cash driven economy these types of activities may easily be run.

- **Increased Tax Collection Enhance Government Revenue**

It will be impossible to avoid the income tax due to recording of all the transactions digitally where transaction trails are left. It will make availability of more revenue due to increased tax base and such increased amount may be used for welfare programmes. As on August 5, 2017, the number of returns filed was registered an increase of 24.7% as compared to previous year when growth rate was 9.9%. During fiscal year 2016-17, total income tax returns filed was 5.43 crore which is almost 17.3% more than previous fiscal year. In the year 2016-17, 1.26 crore new taxpayers were added to income tax base.

- **Stopping Leakages in the PDS**

In cashless economy, money directly transferred in the beneficiary account, it stops the leakage of PDS (Public Distribution System). It has been estimated by Planning commission that approximate 27% of Public distribution system expenses reaches to the targeted income groups. Indeed digitalization of money transfer removes the middlemen, it facilitate to receive the money by the target groups.

- **Control Over Black Money as well as Anti Money Laundry**

Bringing better transparency, adaptability, expandability, responsibility and answerability due to digital transactions because once money is transferred into a particular beneficiary account, the entire process becomes transparent. It also put a limit on circulation of fake currency notes. It will certainly not only control over black money but also control money laundering in the coming days.

- **Reduce Cost of Printing Money**

Bringing down the cost and administrative arrangement involved in the printing, managing and moving currency because printing cost directly affects the banks (RBI). If maximum public uses transaction in cash, bank has to print more currency.

- **Decreasing Crimes**

Eliminate the risk associated to carry huge cash because in case of cashless economy there is no need to carry cash.

- **Reduction in the Real State Prices**

Reducing and declining the price of real states due to controlling on the black money which is heavily invested in this sector and enhance the prices of this sector.

- **Achieving Efficiency**

In case of cashless economy, efficiency may be easily achieved due to cutting down the transaction costs across the economy.

- **To get Rid of from Soil Notes or Counterfeit Currency**

- **Growth of SMEs**

Increasing in credit access and financial inclusion will enhance the growth of SMEs in the medium or long run.

- **Cost Effective to Banks**

Reducing the cost of operation due to use of ATMs because if a bank transaction is done manually, it costs normally Rs. 40 to 45 but if the same transaction is done through internet, it will cost Rs. 7 or 8. And if the same transaction is done by ATM, it will cost hardly Rs. 3 to 4. It will also accelerate banking services due to universal availability and no need of physical infrastructure.

- **Improved Economic Growth**

Due to increasing velocity of money, GDP will certainly increase for emerging market. In Addition to this cashless will be more hygienic because it stops to transfer the germs, knowingly or unknowingly, from one person to another in the form of currency notes.

- **Safe and Secure**

Cashless transactions are safer and secured for both bank as well as customer due to having high degree of secrecy. If unfortunately credit card is stolen, it may be easily blocked.

- **Saves Money and Time**

Banks have to employ various staff to attend and to redress the complaints at different stages. They will be able to reduce costs because there will be no further need of manual accounting work. It will also be Free from delays or queues because no interaction is needed with bank staff. It will also improve

market efficiency due to convenience of digital transactions. Customers become more satisfied due to speedy transaction or work.

Challenges in Transitioning to a Cashless Economy in India

- **Acceptance Infrastructure and Digital Inclusion i.e. Limited Banking Penetration**

It is the most important and biggest challenge in India because Indian banks have less no of branches in comparison to its other counterparts. India has only 13.5 numbers of branches as against per 100000 adult population. In India, only 40% of adult population has accounts in banks and only 13% of population have debit cards. There are only 5% commercial bank branches in village rural area. Due to lack of sufficient infrastructure for such a huge population like India, it is becoming a challenging task to promote digital payments because more than 90% of payments are made in cash.

- **Poor Penetration of Plastic Money Due to High Cash Dependency**

It is also an important feature of Indian Economy due to having more currency notes in comparison of other large country. According to RBI, it was almost 17.97 trillion as on 04 November, 2016 as compared to US which has 34.5 billion. So inflation rates are increased continuously because of creation of demand and supply of currency due to increase currency notes. It is also impossible to track the transactions and expenditure relating to physical exchange of currency notes in unorganised Indian markets. Indian ratio of cash to GDP is very high as 12.42% in 2014 as compare to 4% in Brazil.

- **Digital and Financial Literacy**

India has more than 650000 villages which have more than 25-30% illiteracy rate. India has almost 10% literacy in case of digital literacy. The Indian must be digitally literate to transform Indian economy from traditional branch based economy into the virtual cashless economy.

- **Unorganised Economy**

India is highly autochthonous economy because there are more than 50% of population which are engaged in agricultural and allied activities. According to NSS 68th round data in 2011-12, crop production workforce constitutes 75% and 69% in rural and urban areas respectively. As per word bank reports banks account penetration has increased to 53% in 2014 as compared to 35% in 2011. Indian Prime Minister Mr. Narendra Modi launched Pradhan Mantri Jan Dhan Yojna in 2014 to bring maximum Indian to utilize the banking facilities. It enhanced no. of beneficiaries up to 29.52 cores but it is a disappointing thing that around 72% accounts under this scheme were inactive.

- **Cyber Security**

In digitalization or cashless economy, there is a leading challenge regarding cyber security because after digitalization the risk of online fraud, cyber crimes, leakage of confidential information, identity theft, cyber malware ad virus attacks etc are raising continuously. It is a biggest hindrance in popularizing digital payments because of weak cyber laws against theft in India. 3.2 million Debit cards belonging to multiple Indian banks were hacked in 2016.

- **Financial Inclusion**

It is a primary precondition that there should not only be universal financial inclusion for every citizen for a cashless economy but also every citizen must have access to banking facilities i.e. have an account in banks with debit or credit card along with online banking facilities. Although around 228 million accounts were opened under Pradhan Mantri Jan Dhan Yojana scheme till July 2016, yet a large number of Indian does not have any account in any bank.

- **Habits and Attitude of Indian**

Indian mostly uses cash not only due to the habit of having cash with them and feeling convenience with cash but also due to lack of literacy regarding e-payment and cashless transaction methods. To face this problem government must spread the awareness among the Indian to change their habits as well as attitude and promote e-payments as fashion for getting more rebates and discounts.

- **Differentiation in Digital Facility**

There is lack of stable connection in rural and semi rural areas as compared to urban areas. So it is not practical for rural India to make a transaction by mobile phones in spite of having more than 200 million smart phones. There must be more ATMs, PoS terminals and bank branches in the rural area for full adaptation of cashless economy and promoting them for cashless transactions.

- **Small Retailers**

India is a developing country having a large no of small retailers who do not have enough resources to make invest in electronic payment instruments or infrastructure.

- **Blocking the Internet Facility Time to Time**

Indian government normally blocks internet of those places where there is problem of law and order problem as recently witnessed in place of J & K during revocation of Section 370 and 35 A. We may be feared to imagine the picture in which we has becomes use to of digital cash for transactions but all of a sudden we finds that we are unable to use them because of cutting off from internet due to some regional law and order issue. These types of reasons have some roadblocks before government in India to promote cashless economy. Therefore, Indian government must try to remove these bottlenecks.

Steps taken to promote digital or plastic money by RBI and Government

- Issue of Licence for Payment Banks
- Promoting mobile wallets and allowing users to send money immediately, to make the payment of bills, to recharge mobiles, to book movie show tickets, to send physical as well as e-gifts either online or offline or both.
- RBI had issued certain guidelines to allow the users to increase their limit up to Rs 1,00,000 based on a certain KYC verification
- Promoting e-commerce by liberalizing the FDI norms for digitalisation or enhancing cashless by any means.
- Launched UPI to make Electronic transaction more and simpler and faster.
- Indian Government has also withdrawn or reduced surcharge, service charge not only on cards but also on digital payments

Suggestions for Enhancement of Cashless Economy

- Government must abolish E-payment cost i.e. transaction fees on credit card along with reduction of interchange fee on card transactions
- Tax rebates must be provided to those consumers and merchants who used electronic payments.
- Government must provide proper and sufficient education to Indian to enable them to make the proper utilization of debit and credit cards and transfer of money through internet banking
- Government must develop the sufficient banking infrastructure in the remote area to enable the rural people for use of these facilities and cashless instruments.
- Government must create awareness regarding benefits and advantage of cashless transactions and payments
- Government must establish a regulatory authority which may be able to look after the policies are being properly enforced.
- Government must make a policy so that every citizen may be able to open the Bank accounts but they keep these accounts in operating condition.
- Government must make laws to minimise the cyber crimes so that faith in electronic payment system may be created in the heart of Indian.

Conclusion

Indeed, cashless economy is the need of present days in India to save huge money which is expended to print and maintain the currency. There is need to make some policy relating to protection from cyber attacks, digital literacy, adequate rural penetration of internet connectivity, adequate banking infrastructure, spreading awareness among rural customers, for strengthen organized indigenous market. During last three years, drastic transformation has been taken place in Indian economy from its traditional branch based practices to virtually digital i.e. technologically driven cashless Indian economy by promoting information and technology in each and every sector e.g. start up and stand up India, implementation of one indirect tax i.e. GST, promoting the FDI, Financial inclusion, demonetization etc. increasing trends in digital payments are affirmative and will certainly continue to dominate the payment landscape in India due to development in various innovation in digital payment technologies as well as increasing customer satisfaction. Certainly technologically driven cashless economy will certainly bring the transparency, flexibility, efficiency, convenient, customer friendly banking facilities in India.

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