

CASHLESS ECONOMY IN INDIA: PRESENT SCENARIO

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ABSTRACT

India was known to be heavily cash based economy where people preferred doing transactions in cash mode than any other mode. However, after demonetization many consumers as well as businesses in India have shifted to cashless transactions. Cashless economy includes transactions done through credit cards, debit cards, wallets, cheques, internet banking or any other digital modes. This has become possible only with the advent of internet, smart phones and other digital technologies making it simple and widely used by the people. Also, the ease of conducting transactions has been the main motivator for using digital payment modes at the higher rate. People look at it as most convenient way in their emergency time, travelling time, busy schedules etc. But there are many factors that are limiting the growth of cashless economy.

KEYWORDS: *Cashless Economy, Digital Transactions, Demonetization, Government.*

Introduction

Transforming economy into a cashless economy has now become a worldwide challenge. Most of the countries have already transformed themselves into cashless economy. A cashless economy is where transactions take place in digital mode or other modes and there is a less use of currency, coins or physical cash. With the advancement in technology such as internet, mobile application and online banking facility has made people more convenient to do transactions anywhere and at any time. In India there has been seen a huge surge in use of digital transactions after demonetization in the year 2016. With the demonetization step by the government people are encouraged to use different modes of digital payment in their day today transactions. With lot of measures and development by the government, India is all set to move ahead towards cashless economy. However, attaining this targets has many socio-economic bottlenecks.

Objectives

This paper examines the present scenario of cashless economy in India. It highlights the growth and patterns of cash payments and digital payments through various modes. The study also aims to understand the trends in cashless transactions. This paper also aims at understanding the various modes of digital payments and most widely used one.

Research Methodology

The present study is descriptive in nature. The study has been carried out based on the collection of the secondary data which is collected from different sources such as articles published in different journals & newspapers, published books, periodicals, conference paper, working paper and websites, etc.

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Review of Literature

Rudresha C.E (2019) in his study ‘Cashless Transaction in India: A Study’ examined different modes of cashless transactions and their merits as well as demerits. India is still poor in terms of using digital payment methods as compared with other developed nations and this is because of several reasons such as unavailability of proper internet connections, lack of information and knowledge of financial transactions, charges on card payments etc. Government and the private sector service provider needs to come up with more new policies, incentives and extra benefits to speed up the process of digital transactions.

Dr. Budheshwar Prasad Singhraul & Yogita Satish Garwal (2018) in their study ‘Cashless Economy – Challenges and Opportunities in India’ aimed at finding the challenges and opportunities of cashless economy. A country in order to become fully cashless requires new financial policies, involvement of government agencies and other private sector etc. For safe and secured transaction there is need of certain actions like immediate certification of payments, clear statement of their accounts ,no hidden charges ,full control on money, shorten process of transactions by fulfilling the mandatory information.

Dr. Navdeep Kumar (2017) in his study ‘India’s Move towards Cashless Economy- Options and Status’ opines that there is upsurge in the usage of digital channels for payments after demonetization however there is need to create more awareness especially in rural and semi-urban areas, also there is need to expand the infrastructure to help people to get access to digital modes for carrying out the transactions without any problem.

Bappaditya Mukhopadhyay (2016) in his study ‘Understanding cashless payments in India’ opines that there is a positive relationship between regular inflows into accounts and cashless payments is strong. The mobile payments dominate the present cashless scenario in India. Convenient is the factor the influence the decision of people of making digital transactions.

Use of Cash in Economy

The cash is said to be used as payment and saving options for the people who have limited access to digital payments. In the process of transformation to the cashless economy it is important for us to know the status of our economy in the terms of cash transactions also. However to measure the cash transactions it is difficult to know the exact volume of transactions conducted in cash and consequently the value of such transactions. to measure the both we used the popularly used indicators such as currency in circulation (CIC) versus Gross Domestic Product(GDP) and the withdrawals made from ATM both in terms of value as well as volume.

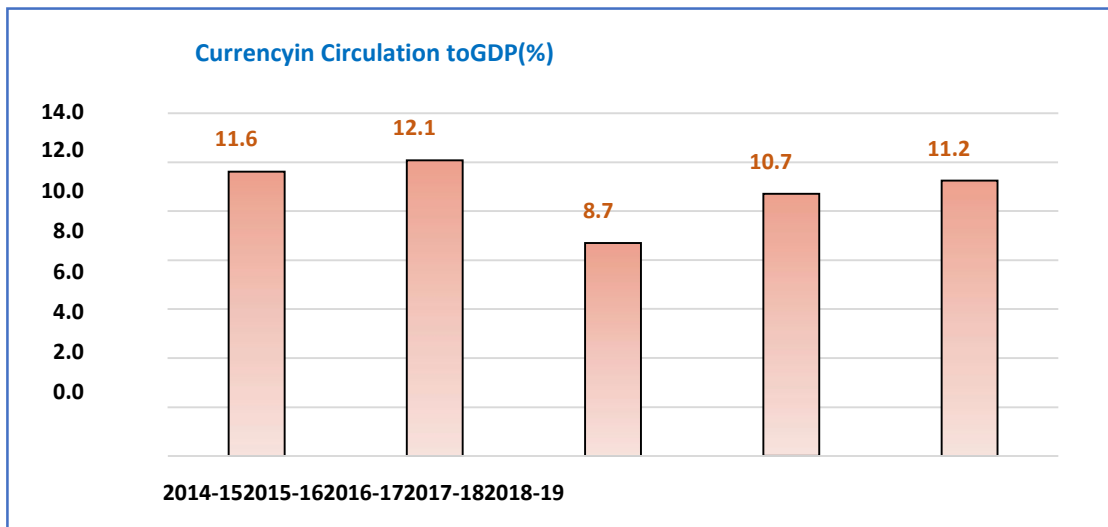
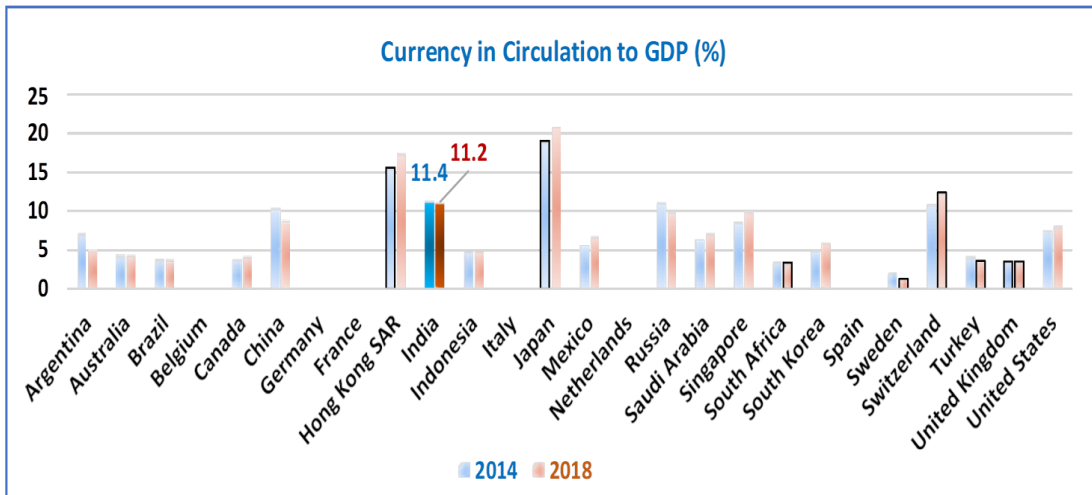


Table 1: Currency in Circulation to GDP %

Source: RBI Data

The high CIC to GDP indicates that cash is highly preferred as a payment instrument, thus we can say that India continues to have a strong bias for cash payments. The year of demonetization shows CIC as a percentage to GDP is 8.70% in 2016-17. however this has increased to 10.70% in the year 2017-18 and 11.2% in the year 2018-19 which is comparatively low than the pre-demonetisation level of 12.1% in 2015-16. this comparison is true indication that there is slow shift from cash economy to cashless economy

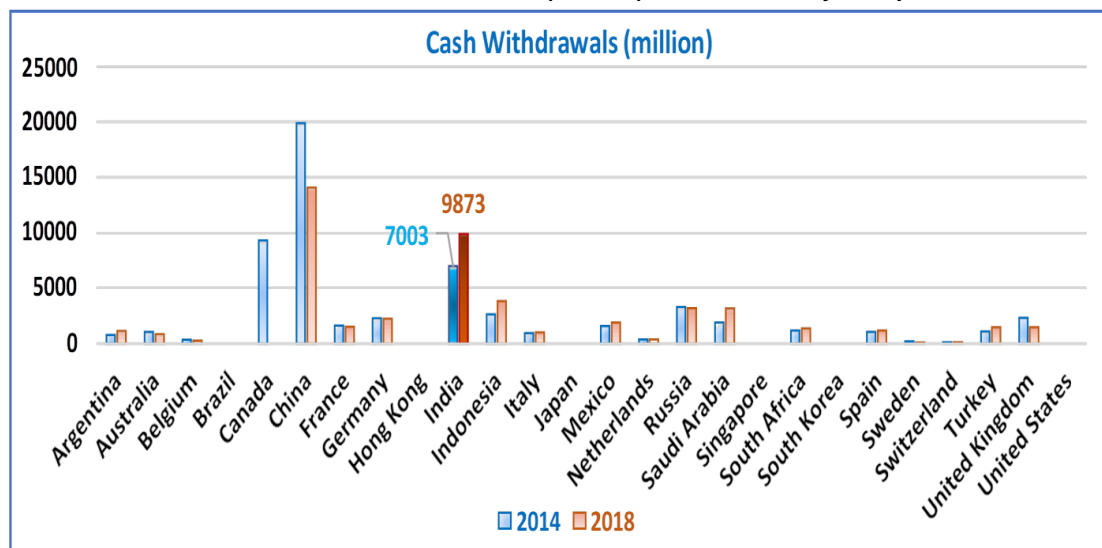
Table 2: Currency in Circulation as a Percentage of GDP – Cross-country Comparison



Source: BIS Red Book 'Country Tables' compiled by the Bank for International Settlements.

India currency in circulation levels reduced from 11.2% in year 2018 when compared to 11.4% from year 2014, further more when we compare the performance of other countries, of the Committee on Payments and Market Infrastructures (CPMI) over the same five year period as an attempt to evaluate India's performance vis-à-vis other countries. it shows that with the exception of Argentine, China, Indonesia, Russia, South Africa, Sweden and Turkey all other countries had increasing cash levels. This clearly indicates that post demonetization have positive impact on economy in terms of cashless transactions.

Table 3: Cash Withdrawal at ATMs (volume) – Cross-country Comparison



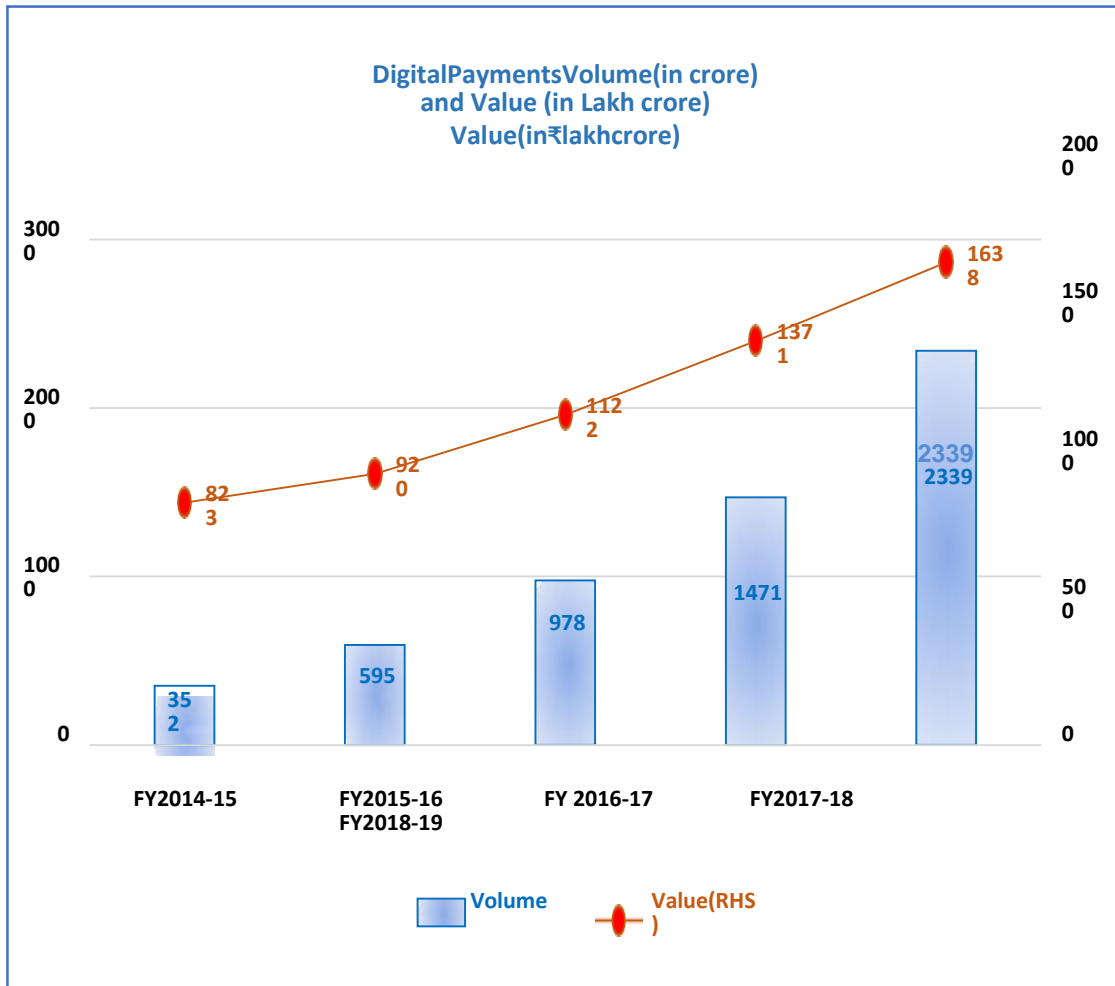
Source: BIS Red Book 'Country Tables' compiled by the Bank for International Settlements.

The cash withdrawal in the country shows an increasing trend for four years i.e from 2014 to 2018. India is next to China in terms of cash withdrawals from ATM. The above graph shows that cash withdrawals has increased. However, the percentage of cash withdrawals to GDP has been constant in India at around 17%. Furthermore, with a CAGR of 9% in terms of volume and 10% in terms of value, the growth has been slow when compared to digital payment transactions (which grew at a CAGR of 61% and 19% in terms of volume and value, respectively), indicating a shift towards digitization.

Progress in Digitization

There is no accurate to measure the, movement of cash in the economy, the progress of various digital payments can be easily measured accurately. Within the digital payments, retail electronic payments comprising credit transfers (NEFT, fast payments (IMPS and UPI)) and direct debits (ECS, NACH) have shown a rapid growth of CAGR of 65% and 42% in terms of volume and value, respectively.

Table 4: Digital Payments Trend in India



Source: RBI Data

Innovations and technology has made digitalization process more convenient, superfast and easy to the people. Various options in digital payment system is making it more convenient and less time consuming process to use it on higher basis. Out of all those options many are even working 24x7 which is pushing more people to use it. Other than these different incentives, discounts, cash back offers encourage many more to do transactions digitally. India has Immediate Payment Systems (IMPS) and Unified Payments Interface (UPI) as fast payments in terms of volume i.e Rs.2,233.07 crores in the year 2020-21. whereas in terms of value RTGS and NEFT are been choose on the higher rate.

A comparison with other CPMI countries shows that India is the country where the value of digital payments as a percentage of GDP has increased from 660% in 2014-15 to 862% in 2018-19.

In addition to the success of digitalization in transactions infrastructure also plays a crucial role. It is the key requirement facilitating cash dispensation and electronic payments. Bank branches and ATM facilities bring in more confidence among the people that can be easily available at hand and thus there is no need to store it in wallet or in the form of the cash. Whereas Pos terminals and mobile phones can be directly used to do electronic transactions. From 2015 to 2019 there has been a growth of 3.5% in the number of branches of SCB's across the country. These increases in branches act as enabler for instilling banking practices among the people of that area. Another important mode of digital payment is QR code. BharatQr has grown as a lightweight, low cost method to bring merchants into the acceptance network. This is one of the most widely used method making transactions very quick and immediate.

Conclusion

Both cash and non-cash payment instruments fulfill unique needs in the economy. Digital payment methods such as credit card payments, debit card payments, IMPS, UPI, NEFT, RTGS, USSD, internet banking, e-wallets, PoS etc. fulfill different needs of different people. The Government of India has set up a mission for the promotion of digital payments. Accordingly, DIGIDHAN Mission was set up at Ministry of electronics and information technology (Meity) in June 2017 for promotion of digital payments, with the objective of "Promotion of Digital Transactions including digital payments"

Despite of number of promotional policies and increasing number of infrastructure facility there are still some factors such as connectivity issues, inadequate acceptance infrastructure, lack of familiarity with newer, alternative payment methods, delay in getting complaints resolved and security and privacy concerns that are inhibiting the digital push.

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