

INDIA AS A CASHLESS ECONOMY: PROBLEMS AND PROSPECTS

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ABSTRACT

The objective of this paper is to study India as a Cashless Economy, the strengths and weaknesses for its implementation. Cashless Economy is one of the most emerging and trending concepts which is regarded by eminent economists. Cashless economy is one in which the quantity of actual currency flowing in transactions is reduced rather than eliminated. Customers may use their electronic devices to conduct fundamental activities such as payment for products and services and person-to-person transfers under the cashless payment system. These capabilities must be available to both parties in a transaction. The digital payment options don't only apply to commercial transactions; they also cover utility bills, school fees, hotel reservations and housing rentals etc. A cashless system is one that allows us to keep currency in digital form and utilize it as needed. India has been slowly and steadily moving towards Cashless Economy. The transition to a cashless economy was not made lightly. In February 2016, the government aimed at encouraging digital payments and a shift away from cash. Reasons for India's shift towards cashless economy are saving time, money and energy, decrease tax evasion, risk and cost for maintaining currency notes, regulating black money etc. There are also many challenges for shifting from cash to cashless economy such as handling currency denominated economy, weak mobile networks, illiteracy etc. There are various myths about cashless transactions, which resist common man to divert cash transactions to cashless transactions. No doubt technology and infrastructure of India is inadequate for Cashless Economy, but first of all we need to change the attitude of common people of the Nation.

Keywords: Cashless Economy, Transactions, Digital Payment.

Introduction

A cashless economy is one in which the quantity of actual currency flowing in transactions is reduced rather than eliminated. Customers may use their electronic devices to conduct fundamental activities such as payment for products and services and person-to-person transfers under the cashless payment system. These capabilities must be available to both parties in a transaction. The digital payment options don't only apply to commercial transactions; they also cover utility bills, school fees, hotel reservations and housing rentals etc. A cashless system is one that allows us to keep currency in digital form and utilize it as needed. India has been slowly and steadily moving towards Cashless Economy. The transition to a cashless economy was not made lightly. In February 2016, the government authorized a raft of programs aimed at encouraging digital payments and a shift away from cash. The concept of a cashless economy has been gaining traction worldwide in recent years, with many countries taking steps towards a digital economy. In India, the government has been promoting digital transactions as a way to reduce the use of physical currency and promote financial inclusion. However, the transition towards a cashless economy in India has not been without challenges. In this paper, we will explore the problems and prospects of India as a cashless economy.

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Background

The push towards a cashless economy in India began in 2016, when the government of India demonetized INR 500 and INR 1000 notes, which accounted for around 86% of the currency in circulation. The move was aimed at curbing corruption, black money, and terrorism funding. The government encouraged people to adopt digital payment methods, such as mobile wallets, debit cards, and online banking, to reduce the reliance on cash transactions. The government also launched various digital payment initiatives, such as the Unified Payment Interface (UPI) and the Bharat Interface for Money (BHIM), to promote cashless transactions.

Objectives of the Study

- Comprehend the notion of a cashless economy and its development.
- To evaluate India's transition to a cashless economy, which began with demonetisation.
- Determine the different problems as well as prospects of India as a cashless economy.

Research Methodology

In this study secondary data will use which is descriptive in nature. These data may collect with various sources such as newspapers, articles, books, research journals, GOI reports, RBI bulletin, various reports on the subjects etc.

Problems faced by India in becoming a Cashless Economy

There are so many problems for cashless transactions in countries like India because people prefer to pay and receive cash rather than cashless payments.

- **Low Penetration of Digital Payments:** There are Only 5% of Indians have credit cards. Many people still rely on cash for daily transactions
- **Digital Divide between Urban and Rural Areas:** There is Limited access to digital infrastructure in rural areas. Lack of awareness and education about digital payments.
- **Cybersecurity Concerns:** There is lot of Risk of fraud and identity theft . Need for better cybersecurity measures and regulations.
- **Lack of Digital Infrastructure:** There is Limited availability of internet connectivity Poor quality of digital infrastructure in many areas.
- **Illiteracy:** According to census 2011 there are about 26% illiteracy in India. These people don't know how to use cashless transactions. Most of the people don't know both English and Hindi languages properly. They know only their regional language. It is very big barrier for spreading cash less Economy in India.
- **Less Trust:** Less trust is also the main problem of success of cashless transactions. Cash transactions is preferred by the people because of lack of trust in cashless transactions. They have perception that cashless transaction is risking due to which frauds can take place.
- **Lack of Privacy:** Cashless transaction have risk of lack of privacy also. Now a days people fear very much from the disclose of their identity. Sometimes people don't want to do this.
- **Less Internet Penetration in Indian Context:** In India there is a problem of network and internet facility in rural areas. There are so many villages where there is lack of internet facility so this is the major problem of the Cashless Economy, the penetration of internet and knowledge related to internet are major hurdles.
- **Cost of Transactions:** For some people, the cost of digital transactions can be a disincentive. The transaction fees that come with digital payments could build up and become costly for users.

Prospects of India as a Cashless Economy

- **Improved Accountability and Transparency:** A cashless economy encourages accountability and openness in transactions. Because digital transactions leave a traceable record, it is simpler for law enforcement to identify and stop corrupt behaviour. This may assist in lowering levels of fraud, money laundering, and other criminal activity.
- **Reducing Corruption and tax Evasion:** A cashless economy can also assist eliminate corruption and tax evasion. It is simpler to avoid paying taxes and participate in corrupt practises in a cash-based economy. It is harder for people to participate in such activities when there is less physical money in circulation.

- **Convenience:** Compared to cash transactions, digital payments are more practical. The convenience of being able to make digital payments from home eliminates the need to carry large amounts of cash, which can be risky. In addition to saving time and money, digital payments are quicker and more effective than cash transactions.
- **Financial Inclusion:** Digital payments can contribute to a greater level of financial inclusion, particularly for those who lack access to conventional banking services. Mobile wallets, which can be accessed with a mobile phone, can be used to make digital payments. Individuals can now more easily access financial services even if they don't have a bank account thanks to this.
- **Fostering Entrepreneurship:** A cashless society can foster entrepreneurship as well. Small businesses and startups can more easily accept payments thanks to digital payments, which can help them develop and flourish. This may also result in the expansion of the economy and the production of new jobs.
- **Enhanced Financial Inclusion:** Digital payments can aid in enhancing India's financial inclusion. By decreasing the dependency on cash, those who lack access to conventional financial services can nevertheless engage in economic activity. This may aid in lowering inequality and poverty in the nation.
- **Improved Tracking of Economic Activity:** Digital transactions generate a trail that can be used to trace economic activity. Making educated decisions on economic policies and interventions can be aided by this for government organisations and policymakers.
- **Reduction in the Price of Printing and Shipping Physical Currency:** Transitioning to a cashless economy can also lower the price of printing and shipping physical currency. This can assist save money for the government and lessen the environmental effect of printing and delivering currency.

Government Initiatives

The government of India has taken several initiatives to promote digital transactions and encourage people to move towards a cashless economy. Some of these initiatives include:

- **UPI and BHIM:** To encourage digital transactions, the government introduced the Unified Payment Interface (UPI) and the Bharat Interface for Money (BHIM). With a mobile phone and a real-time payment system called UPI, customers can immediately transfer money between bank accounts. A mobile software called BHIM enables users to utilise their phones to make digital payments.
- **Aadhaar-Enabled Payment System:** Under the Aadhaar-enabled payment system (AEPS), anyone can make digital purchases using their Aadhaar number and biometric data. Anyone can use their Aadhaar number and biometric authentication to withdraw cash, deposit cash, and check their balance using this system.

The Indian government's flagship effort, the "Digital India campaign," aims to advance the development of the nation's digital infrastructure and services. The initiative aims to increase individuals' digital literacy, promote e-governance, and give broadband connectivity to all communities. By enhancing digital infrastructure and raising digital literacy, this effort is anticipated to facilitate the transition to a cashless economy.

- **Pradhan Mantri Jan Dhan Yojana:** The Pradhan Mantri Jan Dhan Yojana (PMJDY) is a financial inclusion program launched by the Indian government in 2014. The program aims to provide every household in India with a bank account and promote financial inclusion. The program also encourages the use of digital payment methods by providing incentives for digital transactions.\
- **Cashback Programmes and Incentives:** To encourage the use of digital payments, the government has also introduced a number of cashback programmes and incentives. For instance, the government has announced a discount of 0.75% for digital payments made at gas stations for fuel. The Digi Dhan Vyapar Yojana and Lucky Grahak Yojana were also introduced by the government to encourage digital transactions and give customers rewards.
- **Demonetization:** In 2016, India took a huge step towards boosting digital payments when it demonetized its 500 and 1000 rupee notes. As a result of the change, there was an increase in digital transactions as many people switched from using physical money to digital payment methods.

- **Establishment of Payment Banks:** Many payment banks in India have received licences from the Reserve Bank of India, allowing them to accept deposits and offer digital payment services. Payment banks work to encourage digital payments and offer banking services to people who do not have access to traditional banking services.

Conclusion

India's shift to a cashless economy can reduce black money, improve transparency, promote entrepreneurship, and increase tax collection. However, addressing challenges like improving digital literacy and cybersecurity is essential. Stakeholders must collaborate to create an environment that supports the adoption of digital payment platforms. With concerted effort, India can successfully realize the full potential of becoming a cashless economy.

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