

EFFECT OF CASHLESS PAYMENT METHODS: A CASE STUDY PERSPECTIVE ANALYSIS

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ABSTRACT

The Government of India's flagship initiative, the Digital India program, aims to make India into a cognizant, technologically-enabled society. One of the purported parties of Digital India is "Faceless, Paperless, Cashless." The transition from a cash-based to a cashless economy is accelerating the growth of the digital payment system. In order to boost the economy in India, the present government (led by Narendra Modi) is encouraging citizens to move toward cashless transactions. The purpose of this case study is to investigate the effects of digital payment apps and their effects following demonetization. Similar to water, money is a basic necessity that makes it more difficult to survive. Nevertheless, the use of cash doesn't seem to be reducing all that much, with about 85% of all payments made globally still being conducted in cash. The fact that there is nothing that can fully compete with the flexibility of notes and coins is one of the key causes. A cashless society will minimize terrorism, fake currency, black market transactions, and cash-related robberies while also promoting our nation's economic development. Cyber fraud, the high proportion of illiteracy, people's attitudes, and a lack of efficiency in the digital payment system are some of the major obstacles that could prevent the policy's adoption. Four themes that are anticipated to influence this industry's future are also projected to fuel the expansion of digital payments in India. The advent of next-generation payment service providers, a supportive regulatory environment, the digitization of India, and improved consumer experiences are the four factors that have fueled the expansion of Indian digital payment systems. A cashless economy is one in which digital transactions, such as those performed using digital wallets, net banking, mobile banking, debit cards, and credit cards, are utilized to replace the conventional manner of making payments with cash or coins.

Keywords: Cashless Payment System, Cashless Economy, Digital Payments.

Introduction

India is moving on a significant digital revolution. The transition to a cashless future economy will be marked by the digitalization of the payment system. Four themes that are anticipated to influence this industry's future are also projected to fuel the expansion of digital payments in India. The advent of next-generation payment service providers, a supportive regulatory environment, the digitization of India, and improved consumer experiences are the four factors that have fueled the expansion of Indian digital payment systems.

A cashless economy is one where no physical cash money, such as currency notes or coins, is used in any financial transactions. Payment systems and other forms of trade, such as trading in food crops or other items, were popular in the barter age (Humphrey, D.B., 2014). However, the new ideas of cashless transactions in cashless economies are made with the aid of digital currencies, where legal tender (money) is exchanged and simply recorded in electronic digital form. The effects of digital transactions are related to a wide range of opportunities and challenges.

The transition to a cashless economy is a global concern, and several nations have already made tremendous progress in this direction.

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The majority of cash transactions in the country are minor exchanges for products or services, accounting for 98% of all economic transactions by volume in India (Economic Times, Nov. 23, 2016). Post terminal penetration is inadequate. There are still millions of people without a bank account, poor internet connectivity, and a lack of understanding of how to use online payment methods. These are some of the issues that the nation is currently facing, particularly in small towns, rural areas, and unexplored markets in metropolitan India. These issues must be resolved, and individuals must ensure that their payment systems are digitalized.

With India's quickly increasing population, the government of India and its policymakers have a difficult challenge ahead of them: transforming their society into a cashless economy or less-cash economy. The government of India is moving toward a cashless economy as a result of the implementation of cashless transactions.

In the fourth quarter of 2014, India has the world's fastest-growing major economy (G20 an International Forum). With an economy that expanded 7.6 percent in 2015–16 and is projected to increase 8.0 percent or more in 2016–17, India likewise beat the World Bank's growth outlook for 2015–16. Future economic growth in India is anticipated to be positive. India has already made certain payment options available, like Ola Money and PayTM accounts to pay rent online. In 2016, the Indian government decided to demonetize all 500 and 1000-rupee notes so they would no longer be accepted as legal tender. This action has been taken in an effort to stop "black money" from moving throughout the nation and the problems that come with it. India is moving quickly toward a cashless society, but it may take years for that society to completely abandon cash or at least use less of it.

A digital economy is one in which most transactions and purchases are made electronically, with little or no use of cash. • Because cash is not frequently utilized, the economy might alternatively be referred to as "cashless." This concept is novel and is only used in a few nations.

A Review of the Literature

There are several advantages for society in the vanishing of cash and the rise of a cashless society (Humphrey et.al., 1996). An efficient and contemporary payment system is positively connected with economic growth, claims CBN (2011). For entrepreneurs, consumers, and governments all around the world, digital currency is essential for conducting financial transactions as the global economy expands.

Up from 16 percent in 2003, nearly 25% of consumer purchasing globally was made using a payment card. In the six years from 2003 to 2008, according to the analysis, digital currency contributed an additional \$1.1 trillion to the world economy. That amounts to a yearly growth in the gross domestic product of 0.5 percent on average (GDP). According to Moody (2008), the real global GDP increased by an average of 3.4 percent during the same time period. By assessing the nation's economic development and growth, one may gauge the state of its economy.

Gross domestic product (GDP), which measures the entire value of all products and services generated in a nation, is typically used as a measure of economic growth and is frequently linked to new technological advancements. The improvement in citizens' quality of life, which includes things like poverty, life expectancy, and literacy rates, is another way that economic progress is typically shown. Duggeri Ashley.

Objective of the Study

- To investigate various cashless payment options in the context of Indian economic growth.
- To know the value of the cashless payment system.
- To evaluate the benefits and drawbacks of a cashless payment system.

Importance of Cashless Transaction

- **Taxation:** As there is less physical currency available at homes and more in banks, there is less opportunity for people to hide their income and evade paying taxes, which ultimately results in a reduced tax rate for the entire nation.
- **Accountability and Transparency:** By recording every transaction with the buyer, seller, and regulatory agencies, the system becomes much more transparent and compliant, making it much easier to follow the movement of money. Long-term, the economy as a whole has improved commercial and investment opportunities.

According to the nation's monetary policy, holding more currency in the bank will result in increased liquidity and eventually lower interest rates as more money circulates all throughout the economy.

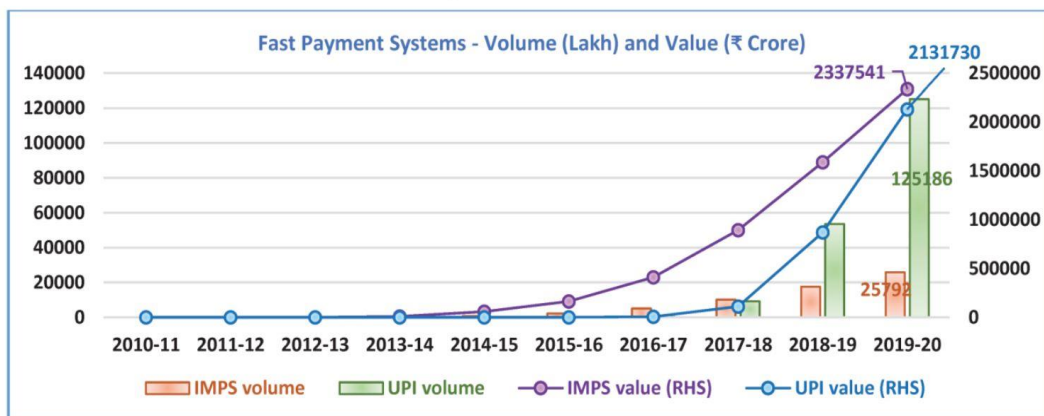
- **Reduced Red Tape and Bureaucracy:** With cashless transactions made through electronic methods, wire transfers are monitored and recipients are held responsible, which lowers corruption and speeds up service.
- **Less Money is Available for Illegal Activities:** When people are urged to become cashless, there is less money in circulation and no way to invest it in other enterprises to put it to use.

The impact of a cashless economy would ultimately be felt most strongly by channels like hawala (illegal remittance).

Simply utilizing mobile banking or carrying the required cards will suffice. An enhanced sense of security is provided by PIN-protected cards, etc. that can only be utilized with your own credentials. Unlike carrying cash and letting your standards slip, there is no risk of robbery. Everyone is informed that there might be something worthwhile.

- **Expense Tracking:** Making decisions is made easier where and how much was spent. Smaller denominations of the exact amount can be used to pay. There is no need to pay a fee for non-cash transactions. If the precise amount is not readily available, any one of the parties. An essential, even if seemingly.

Table 11: Growth of Fast Payments



Source: RBI Data

The cleanliness of the notes is a minor concern.

Types of Digital Payment Methods in India

- Debit cards
- USSD
- Payment System with Aadhaar Support (AEPS)
- UPI
- Smartphone wallets
- Prepaid bank cards
- Point of Sale (PoS)
- Banking online
- Banking on mobile
- The BHIM (Bharat Interface for Money) app

Digital Payment Methods

- **Debit Cards**

Presently, the majority of the banking industry uses card payments, that may be made using different cards such as debit cards, credit cards, green cards, and prepaid banking cards, among others. Convenience, ease of use, and avoiding carrying cash are advantages of this card payment. To conduct all types of transactions, these cards are issued by the individual banks along with a 4-digit pin number. Visa, Rupay, and MasterCard are a few of the most trustworthy and well-known card payment systems. Banking cards are accepted in PoS devices, digital payment apps, internet transactions, and more.

- **USSD**

This payment method can be used on mobile devices without the need for an app or an internet service. This type of payment service's prime aim is to recruit individuals from low socioeconomic status to join a nationalized banking system. People can transfer money, check their account balance, and clarify they may have about their banking statements using this service.

- **AEPS**

Aadhaar card importance is increasing enormously among Indian citizens as a result of a requirement that requires it to be attached to all identification documents and services, including those for banking, LPG, driving licenses, and other services. All banks today request that their customers link their Aadhaar cards to their bank accounts. This AEPS (Aadhaar Enabled Payment System) assists the people by ensuring that all transactions have been accomplished through banking on the basis of Aadhaar verification. This includes balance inquiries, withdrawing money, cash deposits, payment transactions, and Aadhaar to Aadhaar fund transfers, among several other banking activities. There is no necessity to physically visit a department, contribute debit or credit cards, or even constitute an autograph on a dogma. This benefit can only be assisted if your Aadhaar number is recorded with the bank where you hold an account.

- **UPI**

The UPI (Unified Payment Interface) application can be downloaded on either the Android or iOS platforms. Users must register a mobile number for their bank account and connect their bank account with the IFSC code. Based on this software, we can transfer money between banks and between banks and customers around-the-clock, every day of the year. Installing and using this application are free of charge.

- **Mobile Wallets**

A mobile wallet is a symbol of the benefits of a virtual wallet, which can be used simply by downloading an app. To enable carefree payments, the digital or mobile wallet has enough bank account information, debit/credit card advertisements, or bank story in an encoded data format. Furthermore, one can add money to a mobile wallet and use it to restrict payments and benefit from goods and services. This minimizes the desire to use credit/debit cards or to remember the 4-digit pin or CVV. There are numerous privately-owned companies in addition to numerous banks that offer e-wallet services in the nation. Paytm, Mobikwik, Freecharge, and other mobile wallet apps are accessible on the market.

- **Bank Pre-paid Cards**

Prepaid cards are issued by banking firms to consumers who have made advance payments; they differ from debit and credit cards in that they do not link to a bank account. Prepaid cards of this kind are a very secure form of payment in our nation.

- **PoS Terminals**

Any type of store that accepts credit or debit cards for payment of goods and services has a point of sale (PoS). This type of digital payment method is being used by all kinds of goods to provide their customers with a convenient buying experience without the internet. Attributed to the reason that they are spared the expense of purchasing pricey electronic registers, this is excellent for small business owners. Web-based apps are used by virtual PoS systems to process payments.

- **Internet Banking**

Online banking is the process with doing financial transactions. Many different services, including as transfers of money, opening new fixed or periodic deposits, cancelling accounts, etc., may fall under this category. E-banking or virtual banking are other names for internet banking. For NEFT, RTGS, or IMPS online fund transfers, internet banking is typically employed. Through their websites, banks provide customers with a variety of financial services, and those customers can access their accounts by entering a username and password. Internet banking services can be used at any time and on any day of the year, unlike visiting a physical bank, which has time constraints.

- **Mobile Banking**

The act of facilitating financial or banking transactions using a smartphone is referred to as mobile banking. With the introduction of numerous mobile wallets, digital payment apps, and other services like the UPI, the accessibility of mobile banking is only growing.

- **Bharat Interface for Money (BHIM) App**

Through its collaboration with virtual payment apps and the UPI application, the BHIM app facilitates financial transactions. Customers can link their debit card, mobile number, and numerous bank accounts to their Aadhaar number. This app supports a variety of mobile wallets, including Paytm, Google Pay, Phone Pe, and Mobywick, among many others. Using this software, you can scan the QR code, input the amount to be paid, and enter a password to make payments in a very secure manner.

Advantages of Cashless Payments

- More Comfortable
- Low Cost
- Waivers, discounts and cash backs
- Eliminating Cash Processing Costs. Handling paper money comes with a cost.
- Efficient and Quick Transactions. Cash will force you to manage physical items.
- Less Risk.
- One of the riskiest parts of keeping physical cash is theft.
- Saving Time. Cashless payments will not just save you time during checkout.

Disadvantages of Cashless Payments

- Security issues
- Internet link
- Costly
- Data management
- Prone to overspending.
- Payment may not reflect instantly.
- System errors. Contactless payment is a streamlined option for making purchase transactions. However, like humans, technology is also prone to errors.
- Still subjected to theft.

Findings

After India's demonetization, the researcher has discovered several aspects of cashless transactions in this study.

- Cashless transactions assist to lessen block money, ensuring that every transaction is legal.
- This cashless transaction reduces the need for people to carry actual cash and helps keep both banks and the general public safe from robberies.
- This digital transaction makes it simple to transfer money from one person to another in an emergency.
- Customers that use digital transactions gain access to discounts, gifts, offers, and other benefits.
- By eliminating the need for actual bank visits, long lines, and pointless disagreements with bank employees, cashless transactions have decreased human effort.

Conclusion

After demonetization in 2016, the use of digital payment apps has steadily increased in our country, with 440 basis points more people using them. Cashless transactions have increased significantly through well-known channels including NEFT, Mobile Wallets, Mobile Banking, BHIM, Banking Cards, and Internet Banking, according to the Reserve Bank of India (RBI) and National Payments Corporation of India (NPCI).

Each digital payment app needs the internet, a mobile device, an Android or iOS device to complete any transactions. The number of users has been rising steadily in recent years as more adults and children have started using digital payment apps, particularly students and workers in the commercial and public sectors. Overall, users of all digital payment apps gain most from them since they can pay quickly, avoid carrying cash, save time, make highly secure payments, receive discounts and offers, recharge quickly, and use green payment methods, among other things. Therefore, Indian individuals' attitudes are changing, which is a great start for a cashless or less coin-based economy. This will encourage India to strengthen its economy and go more digital.

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