

CASHLESS ECONOMY IN INDIA: PRESENT SCENARIO, POTENTIAL, PROSPECTS AND CHALLENGES

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ABSTRACT

This paper studied the viewpoints of people on cashless transaction and economy in India. The study concludes that cashless economy will definitely support in control black money, reproduction of fake currency, aggressive against terrorism, diminishing cash related theft, helps in cultivating economic growth of India. Major responsibilities that can hinder the use of the policy are cyber cheating, High education ratio, approach of people, lack of clearness & competence in online payment system. The study shows that the beginning of cashless transaction in India can be understood as a step in proper direction. It helps in growth and progress of economy in India. It also seems that many people actually accept with the government on the benefits of cashless transaction as it will definitely help to fight against terrorism, corruption in cash transaction, money convert in white from black money but one major problem in online transaction is fraud in digital transaction and cyber-crime. Therefore it's important to reinforce Internet Security from protection against online deceit. Large number of population is still under literacy rate living in rural areas. For smooth application of cash less system in India, the following measures are recommended Government have to fetch clearness and competence in e payment system, programme and planning used by government and RBI to promote cashless economy by providing license to various payment banks like Paytm and Google pay, promoting mobile wallets by giving cash back as well as discount and removing charge on cards payments and digital payments. A movement should be led by government time to time to make population aware of benefits of electronic payments.

KEYWORDS: *Cashless Economy, Corruption, Black Money, India, Digital Payments.*

Introduction

Cashless Economy means the flow of cash transaction within country is not existent and all transactions have been done with the help of electronic channels mode such as payment applications like Google pay, Phone Pe and Paytm or by various cards or electronic clearing and payment systems such as Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS) in India. The Indian Economy continues to be dominated by cash in each every transaction; less than 5% of all payments occur electronically. In India, the ratio of cash to gross domestic product is 12.44% in GDP, which is highest in the world. It was 9.48% in China and 4.1% in Brazil.

The currency notes in transaction are also so much high compared to other country. India had 76.48 billion currency notes in motion in 2013 compared with 34.53 billion in the USA. There are numerous motives as to why Indians prefer Cash over electronic transactions. Firstly, absence of admittance to banking leaves no option other than cash for a large portion of the population. Secondly, there is no additional transaction cost on Cash payments; it will definitely affect the consumer behavior and there is lack of education & knowledge of technology as well as lack of education is biggest reason

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behind such type of full cash economy. Electronic payments had been so far useless for small value transactions but things are changing fast. Thirdly, Cash delivers simplicity as a transaction needs only moving from one hand to another; there are no suspicions about deafening of computers and losing the transactions. Fourthly, India has a big disorganized sector with majority of retailers, suppliers and service providers. They have neither the structure to offer card-based transactions nor the leaning to inspire consumers to pay by credit cards or debit cards. Lastly, there is the lack of awareness among consumers regarding use of cards.

Meaning and Definition of Cashless Economy

- A cashless economy is a pattern where any type of money transactions are done through digital like debit cards, electronic fund transfer, mobile payments, internet banking, mobile wallets and other newly developed payment channels.
- The cashless Economy is categorized by the trading of funds by cheque, debit or credit card or electronic methods rather than the use of cash.

Main Objectives of Cashless Economy

- **Transparency:** It is very easy to retain transactional records when they go through a proper system of records about all deal of digital payment. Cashless transactions with use of Phone Pe and internet banking, mobile wallets, etc. safeguard clearness of transaction.
- **Logistics Cost Reduction:** Logistics for transporting cash are about 1.52% of India's GDP. Other countries may have changeable numbers, but this is also one of the reasons for which cashless transactions are being promoted.
- **Tax Revenues:** While I sit on the boundary on the matter, this is an issue which I strongly advocate for. A cashless system ensures data collection and record keeping that helps track down earnings, expenses and tax liabilities.
- **Convenience:** This is another possible path where cashless transactions can come in and help massively. In a retail channel, the most time expended at one spot is usually at the register/cash kiosk.
- **Write offs:** Cashless can also help balance the books on writing off amounts due to inadequate change and so on.

Review of Literature

It was in 1918 when the Federal Reserve Bank used telegraph to move currency for the first time and with the set up of Automated Clearing House (ACH) in 1972 provided the U.S treasury and commercial banks an alternative to process cheque, which led to the revolution of e-payment as Benjamin Graham (2003) noted in his work "Evolution of Electronic Payment". Many researchers over the world have undertaken research, symposia, seminars, journal articles, and lectures to evaluate the system of e-payment. Snorckel and Kwast used the Federal Reserve's 1995 survey of consumer finance and analyzed the effect of demographic characteristics on the likelihood of e-payment instrument usage by households. Carrow and Stanten (1999) investigated preferences of consumers among debit cards, credit cards and cash. In October 2005, Wondwossen & Tsegai and G. Kidan (2005) completed their work on e-payment challenges and opportunities in Ethiopia and found; Poor telecommunication infrastructure, Frequent power disruption, People are resistant to new payment mechanisms, Lack of skilled manpower, Unavailability of payment laws, and regulations particularly for e-payment. Balachandher, K.G., Santhan, V., & Norazlin, R (2000) studied electronic banking in Malaysia and found that ATM were most widely accepted and highly utilized channel. Joshua Abor (2004) researched technological innovation and banking systems in Ghana and found a positive relation between them. Studies by; Hunter, W. C., & Timme, S. G. in (1991) found that information technology has appreciable positive effect on banking productivity; cashier's work, banking transactions, bank patronage, bank services delivery and customer services.

Researches regarding the issues of cashless system are also done as Wondwossen T & Tsegai G. Kidan (2005) found out that e-payment is surrounded by widespread challenges in Africa. Poor telecommunications infrastructure, limited readiness by banks, behavioral constraints, inadequate legal and regulating framework, and low level of credit card access are among the constraints that have hindered the progress of e-payments. Baraghani (2007) examined factors influencing the adaption of Internet banking. Bassey (2008) in his work "Digital Money in a Digitally Divided World" revealed the challenges to the adoption of e-payment systems in Africa. He categorized challenges

into three categories viz; the infrastructure, regulatory, cultural-cum human dimensions". In his view the infrastructural challenges were the most important this comprises of accessibility, affordability, networks, connectivity and usage. According to Worku (2010), e-payment and e-banking applications carry a security challenge due to highly dependency on critical ICT systems that may create vulnerabilities and can harm customers. "It is imperative for banks to understand and address security concerns in order to leverage the potentials of ICT's in delivering e-banking applications". Akhalumeh and Ohioka (2011) observed some challenges with the introduction of cashless policy. Their findings show that 34.0% of the respondents cited problem of internet fraud, 15.5% cited problem of limited POS/ATM, 19.6% cited problem of illiteracy and 30.9% stayed neutral - the respondent not been sure of problem been expected or experienced. OkeyO.Ovat (2012) found Fraud, Indiscriminate deductions from accounts, high rate of illiteracy, inefficiency, epileptic public power supply as challenges in Nigeria. Ajayi, L. B. (2014) found lack of unique national identity system, inadequate infrastructure, high rate of illiteracy and poor sensitization, poor timing and sequencing for both the policy as challenges for cashless policy.

Gap Analysis of the Study

- To find out the different problems encountered by Indians while moving towards cashless.
- To examine the status of 'cashless structure' in rural and urban areas.
- **Cash Based Economy:** Cash-based economy is well-defined as one in which day-to-day payments and business activities are mostly managed in notes and coins. These notes and coins are issued mainly by the central bank of country accordingly signed by the Governor, promising the bearer to pay the printed amount.
- **Cashless Economy:** Cashless economy is a system which purposes at reducing, not removing the amount of physical cash (notes and coins) circulating in the economy, whilst inspiring more electronic based transactions (payment for goods, services, transfers etc.).

The Pros and the Cons of Cashless Economy

- **Data Protection:** As this is a Greenfield payments mechanism, a lot of the areas of what can be shared and what cannot be need to be defined efficiently. In the information age, corporations will look for an advantage wherever possible.
- **Privacy:** This is the most significant issue of the lot. If every transaction ever made by you is on record, then this shrubberies you at the mercy of data theft, identity theft, and being prone to surveillance. Everyone makes mistakes and everyone has something to hide. Where you used your money in the past should not be a defining factor in your future, but miserably this is the part that is minimized the most.
- **Job Losses:** While cashless might be well-organized, it does come with a serious drawback. Jobs involved in the value chain are likely to destruction and loss. As more and more banking organizations push the narrative on cashless, those involved in the maintenance, distribution and operation of the cash system are bound to be left on the wayside.

Moves towards Less Casheconomy

- **Course of Action**
 - Enhance the availability and acceptability of alternate payment instruments in lieu of cash.
 - Encourage union of mobile technology and various aspects that could lead to mobile becoming a single appliance for booming out financial transactions.
 - Cash back or less payments to be made electronically. Possible circumstances include discounts when dues to the Government are paid electronically by various different medium.
 - Create a transaction limit for payments made by cash and/or cheques.
 - Implement customer protection for all electronic payments including a "Zero Liability" framework.
 - Dialogue with the Government for providing tax incentive for merchants and customers to promote electrification of payment transactions.

What are the Different Ways to Send Money to India?

From e-transfers to traditional methods of payment various options are available to send money in India. It is important to do various study and make sure you make the prime choice to send money.

- **ACH Transfer**

ACH stands for Automated Clearing House and it is an electronic fundshandover system. In the US, ACH is administrated by The National Automated Clearing House Association's (NACHA) functioning rules that control the inter-banking clearance of electronic payments and dealings among participating financial institutions. When transfer money from the bank account via ACH transfer, the recipient bank receives the amount transferred in 5 working days that can be elect up the recipient the very next day. There are no extra cost, visit to banks, or transfer checks related with ACH transfer. It saves time and money.

- **Online Transfer**

Online Transfer is the modest method to transfer money. You must have an internet connection and practice of local banking services to exchange money to an account in India. Necessary information for online transfer is the name and address of the account holder or the recipient, information about the financial institution the money is being sent, the IFSC CODE and the Account number of the recipient bank. This method is specially suggested if you do regular transfer offunds.

- **Wire Transfer**

Wire Transfer is one of the best methods to do international money transfer. The sender has to go to an institute like bank or other agencies or branches like Western Union, Xoom and transfer the money. The wire transferability gathers information from the sender about the recipient and recipient's bank or some other facility where the money wants to be sent.

- **PayPal**

PayPal permits individuals to send money electronically from one account to another account. A payment is charged to the receiver although the transaction is free for the sender. In addition to the interchange rate of transfer, the fee is 3.9% per transaction for international transfers.

- **International Money Order**

International money orders are a harmless, economical and fast way of transferring money mainly to isolated places in India. The money orders can be deposited into your bank account or cashed at many check cashing places. Utmost of them will need an ID to cash the checks. It is simple to purchase and no checking account is essential. It is perfect method to send money if the amount is small.

- **Bank Drafts and Cashier's Checks**

Bank Drafts and Cashier's Checks are accessible at any bank in India. There is a charge related with these facilities and it may take some time to cash the checks in India. The cost of purchasing a bank draft is greater than money order. This method of money transfer is traceable in case checks or drafts don't reach the end. They are more economical but more time-consuming.

- **E-mail Money Transfer**

E-mail money transfer is an online money sender mechanism. There are no extra costs associated with this type of money handover. It is similar like bank to bank transfer but here the sender need not have the receiver's bank information. The sender has to log on to his bank's website and fill a form. The form does not inquire for too many details and the sender has to give the receiver's e-mail id and answer a security question. The sender gives the answer to this security question only with the receiver. An e-mail is sent by the bank to the receiver and in order to validate his identity the receiver has to answer the security question correctly.

What is the Scope of Cashless Economy?

The enlargement of smart phones would offer a digital shift to the economy in near future. The private sector will be the driver of this change. Government is also providing encouragements for electronic payments for example cost of tax when electronic settlements are used. The private sector has to come forward to drive the alteration. Apart from this government should also give positive supports for electronic transactions.

Advantages of Cashless Economy

- The first and prime benefit of cashless economy is that an individual does not necessary to keep physical cash with him or her everywhere which in turn decreases the probabilities of stealing from wallet, diminishes troublesomeness due to carrying cash, provide freedom from difficulty of change when transaction is of odd amount, no risk of receipt counterfeit currency and so on.
- It will be very convenient to all people if cashless transaction accept widely.

- You can easily manage your past transaction so it will also useful in budget management.
- Easy tracing of black money and government income via tax also increase.
- Tax collection increase so tax rate may be reduces.
- Monetary help to poor and needy person directly to his account so chance of corruption also decrease.

Disadvantages of Cashless Economy

- Ñ The majordrawback of the cashless economy is that not each person has the knowledge of doing digital transactions and hence its scope is limited to urban and semi-urban centers as well as to educated people only.
- Ñ Developing Country like India most of people are stay in villages so lack of education and lack of proper structure of it also biggest limitation.
- Ñ Another shortcoming of the cashless economy is that although it easy to establish digital transactions but at the same time it is very difficult as compared to cash related transactions.
- Ñ A different demerit of the cashless economy is that digital mode of payments alike the credit card, wallet payments, internet banking includes some transactions fee which is not the case with cash transactions.
- Ñ It cannot be possible in simple phone.
- Ñ It must require internet connectivity for it.

Conclusion

As one can see from the above that cashless economy has benefits as well as drawbacks and any government thinking of implementing cashless economy model should carefully analyze the merits and demerits and then take the decision as the cashless economy cannot be forced on the people rather it can be gradually adopted by the people of the country.

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