

Recent Trends in cashless economy in India

Dr.S.Sivakumar
Associate Professor
Department of Commerce
St.Joseph's College of Commerce (Autonomous)
163, Brigade Road, Bengaluru -560025.
E-mail: sivakumar1976phd@gmail.com

Dr.G.Vincent
Associate Professor
Department of Commerce
Christ (Deemed to be University)
Bengaluru -560029
E-mail: Vincent.g@christuniversity.in

Abstract:

Cash based economies often pose serious challenges to any country in terms of tracking all unaccountable transactions perpetrated by consumers, business entities or even the Government. To tackle these issues, many developed countries have switched to cashless economy. This paper seeks to examine the possibility of converting India from a cash-based to a cashless economy. Due to constant level of technological infrastructure and policy changes, there has been an increase in the number of modes of payments. Cashless economy is the future of Indian economy where there will be no physical flow of cash. All the payments will be made and received in the virtual world. Cashless economy got popular after demonetization where plastic money was widely used. Electronic banking will be made banking transaction to be easier by bringing services closer to its customers hence improving banking industry performance. The financial safety over the digital payment channel is important for pushing the cashless economy idea. A major obstacle for the quick adoption of alternate mode of payment is mobile internet penetration, which is crucial because point of sale terminal works over mobile internet connection, while banks have been charging money on card-based transaction which is seen in hurdle. The study is aimed towards studying the level of awareness among the citizens about cashless economy. The study recommends that more people should start using digital payment methods which will serve a cashless economy or less cash economy.

Key words: Cashless Transactions, Electronic-payment, Demonetization, Economic policy.

Introduction

Over the past several decades, financial markets and institutions underwent radical transformation and a sudden expansion, induced by general trends in deregulation, liberalisation, globalisation, as well as computer technologies advances. International capital flows intensified; markets have developed new and sophisticated instruments, with the drastic improvement in the speed of financial transactions execution significantly lowering financial transaction costs (Fabris, 2018). The manner of payment has changed in parallel with the aforesaid changes. Credit and debit cards have become widespread and started squeezing out cash, whereas the emergence of contactless technologies has further enhanced the use of these payment instruments. Smart phones also revolutionized payments. This has led to changes in numerous other areas such as education, innovations, change in consumer habits, commerce demand for new products and services, but also in product life cycles (Tomljanović and Grubišić, 2016).

The future of cash has become an ongoing debate, but mostly among economists. For the average person, it's a moot point—since we have access to a variety of forms of payment, there's no conflict (Mercadante, 2018). Today's money is based on a set of mutual beliefs. This means that money has value only because the society has assigned it certain value. Some are of the opinion that money is the most important abstraction human beings have ever devised (Zorpete, 2018). Cashless societies have existed from the time when human society came into existence, based on barter and other methods of exchange, but real cashless society should be understood in the sense of a move towards, and the implications of, a society where cash is replaced by its digital equivalent.

Governments encourage a shift toward digital services because they see it as a way to address money laundering, tax evasion and also to boost competition in financial services. Others argue that digital payments protect consumers from being robbed or losing money, as well as sparing them the hassle of constantly carrying a wallet (Cerulus and Contituglia, 2018). India is looking to step away from traditional cash transactions. The government withdrew some high denomination bank notes from circulation over a year ago. India's prime minister Narendra Modi created dozens of cashless townships where notes and coins are discouraged (Jenkins, 2018). India also houses many street vendors whose livelihood depends on cash

based selling. The main focus is that India is a country which still depends on cash payments for most of the transactions (Ayash Yousuf Shah 2017). In Countries like Belgium, Canada, etc. 90% of the consumers make cashless payments while in US, Australia 80% of transactions are made through digital mode (SmrityBaiju, RadhaKumari 2017).

Statement of Problem

Traditionally, complying financial institutions in India, suffer from major issues like overlapping regulatory requirements, changing mindset of the growing population of the country, skill sets required for dynamically adapting to the newer technology, data privacy and cyber security, lack of stringent intellectual property rights, lack of awareness about norms and technological innovations across the globe that could help in widening the horizons of innovative practices in the country.

Literature of review:

Cashless economy is not the complete absence of cash, it is an economic setting in which goods and services are bought and paid for through electronic media.

(1) According to Alvares, Clifford (2009) in their reports —The problem regarding fake currency in India. It is said that the country's battle against fake currency is not getting easier and many fakes go undetected. It is also stated that counterfeiters hitherto had restricted printing facilities which made it easier to discover fakes.

(2) Zandi et al. (2013) studied whether the long-term shift to credit and debit cards stimulates economic growth of 56 countries worldwide. They discovered that electronic card payments can increase efficiency and boost consumption of the economy.

(3) A report published by IIM Bangalore (2017) mentions that 63% retailers all over India are inclined to cashless transactions. A huge chunk of shop keepers (94%) have mobile phones, out of which 41% are smart phone users, which presents a great opportunity for cashless transactions. Also, 45% retailers are inclined to use POS machines. The study also revealed that 38% retailers were willing to pay a transaction charge in excess of 1%. About 76% consumers preferred using cash, but this number appeared to be reducing. Young consumers (up to age 30 years) had high access to smart phones and were displaying more inclination towards cashless transactions.

(4) Dr. Tushar Chaudhari (2017): Cashless transaction systems are not possible without adequate internet facilities, so government must investigate in infrastructure availing internet.

Especially free wi-fi zones should be made available at local market .All the major banks must have separate counter which will be particularly used for assistance and guidance for cashless transaction system. Extra charges on Cashless transaction must be stopped. It should be made compulsory to all cooperative societies to make Cashless transaction specially cheque or demand draft. Some advantages must be given to the people who are using Cashless transaction. The vast advertisement campaign must be launched which will not only develop Cashless transaction but also will provide valuable assistance in using it.

(5) Dr. Budheshwar Prasad SinghraulV(2018) : The major findings of the study show that India in terms of using digital payment methods is still very poor in comparison to other developed countries in the world. As many countries are already turned up with their electronic payment system, India is in its beginning stage and all most of all population are mainly dependent on paper cash based transaction because of unavailability of proper internet connectivity, lack of awareness and knowledge of financial transaction, charges on card payments and un operational bank accounts

Objectives of the Study

- ❖ To elucidate the concept of cashless economy.
- ❖ To study the current position of cashless India.
- ❖ To identify the prospects and challenges of cashless transaction system in India.

Methodology

The study is based on the literature review from various sources.

Cashless Transactions in Indian Economy

Money is becoming much more of a concept from a physical entity. (O.S. Akinola 2012). Cashless Economy is defined as situation in which almost all transactions are performed through digital methods with minimal use of cash. Cashless economy does not mean complete absence of cash. In this economy transactions are mostly done through credit or debit cards, online fund transfers and using e-wallets. The new policy of demonetisation has inclined the use of digital methods by customers. It has reduced the risk of theft and loss of money leading to risk free transactions.

Achieving cashless in rural economy:

(i) Worldwide there is a tremendous interest among policymakers to explore the possibility of moving towards a cashless economy. Digitisation of transactions is the best way to move towards cashless economy.

(ii) Rural areas are home to two thirds of the country's population of some 870 million people where much of the challenge lies in achieving cashless transactions for the rest of the decade.

(iii) It is estimated that rural users will constitute almost half of all Internet users in 2020. Number of connected rural consumers is expected to increase from 120 million in 2015 to almost 315 in 2020.

(iv) Over 93% of people in rural India have not done any digital transactions. So the real problem lies there. The government has taken steps including announcing zero balance accounts for people, but growth of Bank branches has been low.

Types of Cashless Modes and Payments

(i) Cheques and Demand Drafts

A cheque is one of the safest and oldest methods of cashless payment. A cheque is issued to a person or business for a specific amount. This cheque is deposited in the receiver's bank, and the money is received through a payment processed by a clearinghouse. A demand draft is safer than a cheque because it cannot be defaulted or dishonoured, unlike a cheque. The DD is signed by a banker to ensure that sufficient funds are available for a successful transaction.

(ii) Debit and Credit Cards

Debit and credit cards have caught on as a method of cashless trading. A debit card is considered by many to be safer because you are transacting with money in your account. The risk with a credit card is overspending. Debit and credit cards can be used to make purchases online as well as over-the-counter at a store.

(iii) UPI Applications

UPI stands for Unified Payment Interface. UPI has changed the way we transact. At the core of a UPIs functionality is the fact that our mobile numbers are registered with our respective banks and linked to our accounts. A virtual payment address helps to send or receive money without entering any bank related information. Merchants would need to have a current account to receive UPI payments.

(iv) Mobile Wallets

Mobile wallets have become a convenient way of making payments without cash. Once you load money into your mobile wallet, you can use it wherever it is accepted. The most popular mobile wallet that is trending is Paytm. The disadvantage with mobile wallets is that it isn't linked to your account.

(v) NEFT and RTGS

National Electronic Fund Transfer and Real Time Gross Settlement are electronic payment systems that allow convenient fund transfer between bank accounts. Both facilities are maintained by the RBI (Reserve Bank of India). The facilities can be used to transfer money only within India.

(vi) IMPS

IMPS, which stand for Immediate Payment Service, are a service that was initiated by the National Payment Corporation of India. The pre-condition to avail IMPS services is that a user needs to also register for mobile banking. Once registered, the user may avail of the IMPS service even through internet banking. Money can be sent or received 24*7, and there is no cut-off time for transactions.

(vii) USSD

Unstructured Supplementary Service Data is a cashless option for those who do not carry a smart phone or tablet. It works without an internet connection as opposed to most of the other digital payment services. It is a form of mobile banking where you must dial *99# to use the service. The service mirrors the IMPS service and uses MMID with a mobile number or IFSC code with the account number for the transaction to be successful.

(viii) ECS

ECS stands for Electronic Clearance Service. It is a convenient method to make bulk payments, especially to pay off your utility services, equated monthly instalments, and for financial institutions to disburse payments like pensions, salaries, or dividend interest.

(ix) Net Banking

Net banking is an alternative to using your debit or credit card. The user needs to login to their net banking account to approve a payment. Net banking gives you the flexibility of transacting even if you have misplaced your debit card or lost it.

Challenges in Making India Cashless Economy**(i) Lack of Digital Literacy**

Since more than 60% population of India does not know how to use the computer and rural Indian does not know about the smart phone. There is need of high speed internet connection

but in India, there are various rural and urban area where the access of internet is very difficult. The areas which have internet connection also have problems in continuous connection. The costs of internet facilities are very high in comparison to developed countries.

(ii) Lack of Infrastructure in India

There are various areas in the rural where banks are still a distant dream because these areas are still having the banks at their door step. There is lack of ATMs in such areas and the areas which have ATMs are not fully back up with the electricity and other IT facilities. So it is necessary to have basic infrastructure for banking services.

(iii) Cyber Security Issues

Another mounting challenge in digital payments is cyber security issues, with the magnitude with which digital transaction-taking place after demonetization the risk of online fraud, leakage of confidential information, cyber-crimes, malware and virus attacks has been raising. This is the biggest concern to deal with in order to popularize digital payments.

(iv) Unwillingness of Indian to Make Cashless Transactions

Mostly Indian does not prefer to deal with cashless transaction because seller does not accept the cards and cheques at the point of sales and they demand for transaction fees that makes the things costly. This problem may be solved to lower the transaction fees by the banks or service provider if large no of Indian use the debit and credit cards for making the cashless transactions.

(v) Lack of Customer Awareness

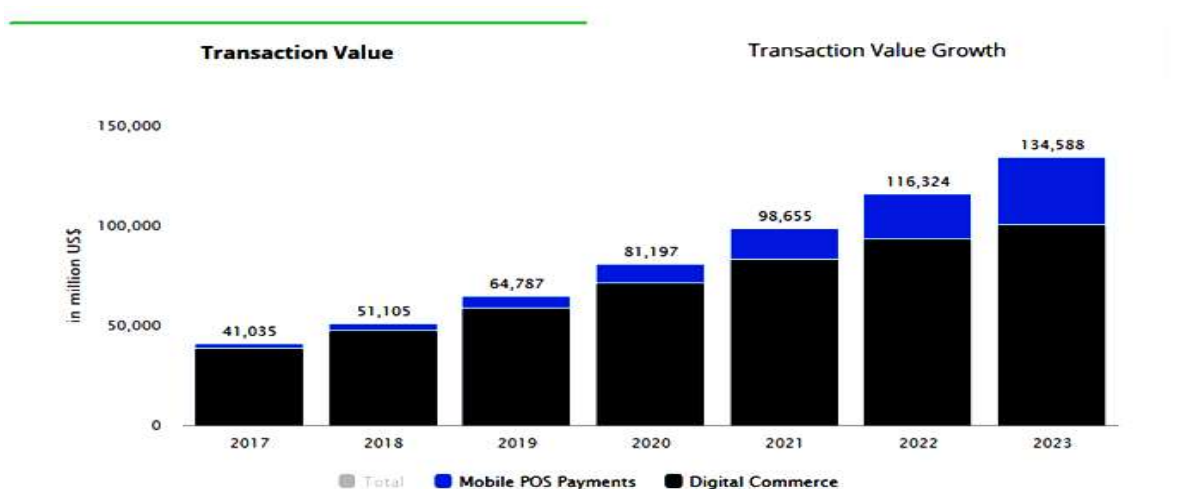
There is lack of awareness about different aspects of cashless transactions. It is the need of the hour to stress upon the matter relation to the service tax, transaction fees, security of accounts etc to make the consumer aware and effective party of the mission.

Analysis:**Digital Payments**

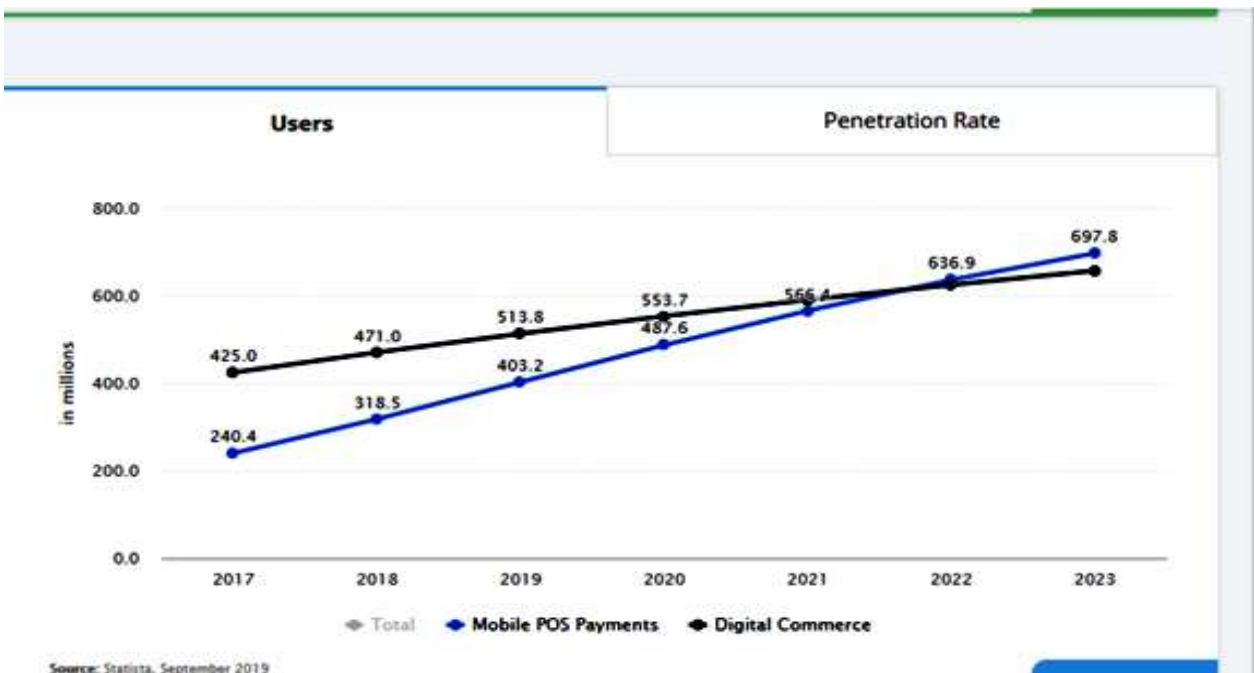
- ✓ Total transaction value in the Digital Payments segment amounts to US\$64,787m in 2019.
- ✓ Total transaction value is expected to show an annual growth rate (CAGR 2019-2023) of 20.1% resulting in the total amount of US\$134,588m by 2023.

- ✓ The market's largest segment is Digital Commerce with a total transaction value of US\$58,812m in 2019.

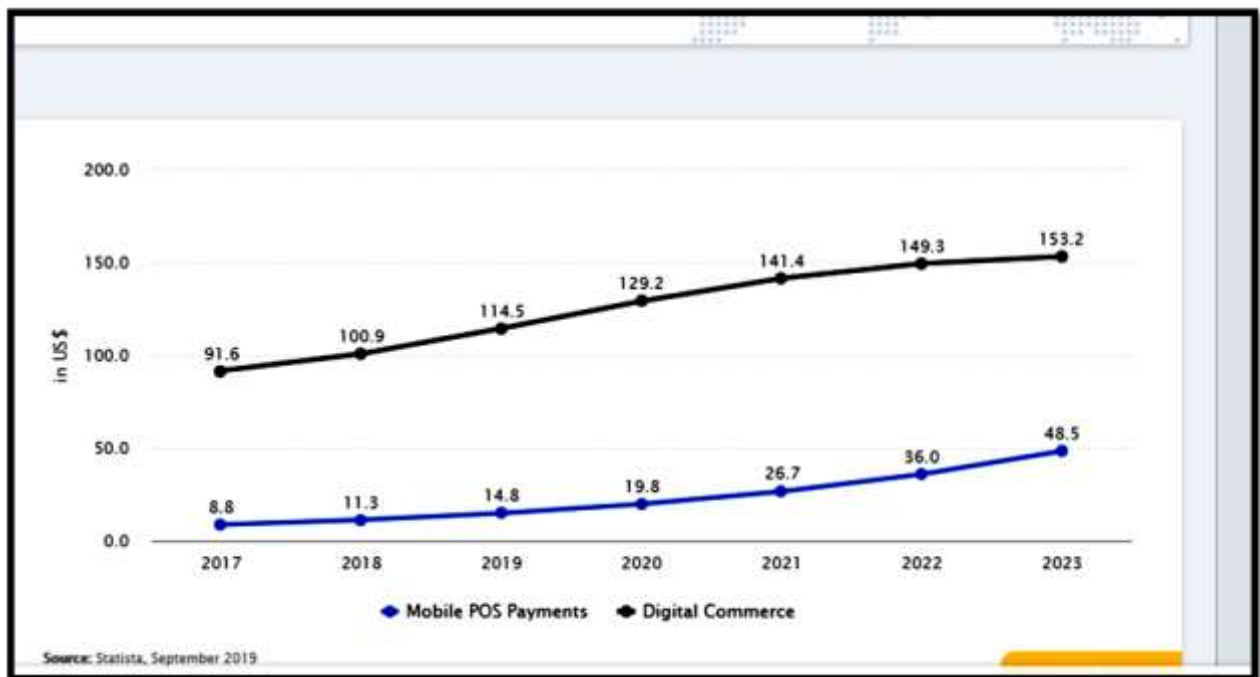
(1) Total Transaction Value in the Digital Payments segment amounts to US\$64,787m in 2019 and 134.588 in 2023.



(2) In the Mobile POS Payments segment, the number of users is expected to amount to 697.8m by 2023.



3. The average transaction value per user in the Mobile POS Payments segment amounts to US\$14.8 in 2019 and 153.2 in 2023.



4. With a total transaction value of US\$1,570,194m in 2019, the highest value worldwide is reached in China.



Findings:

The findings of the study show that India in terms of using digital payment methods is still very poor in comparison to other developed countries in the world. As many countries are already turned up with their electronic payment system, India is in its initial stage and most of the population are dependent on cash based transaction. India needs to come up with the new policies of digital transactions. It is recommended that government should promote their agencies and private sector service providers to spread financial literacy at a great extend especially in rural areas. Government should provide extra benefits on digital transaction payments and offer extra incentives or interest rate on cash saving in bank accounts. At the same time reduction in charges of digital transaction or exemption completely on digital banking should be offered for few initial years which can be more helpful for speeding up the process of digitalisation of payments in India.

Suggestions:

Developed economies have implemented a cashless payment infrastructure based primarily on credit cards several decades ago, but in the recent years the legacy structures suddenly became a burden. The "Western" markets are now much slower to adopt new payment solutions than growing economies like China, India or Eastern Europe. The large share of population in the developing economies of Asia, Africa and Latin America have also been under banked until the rise of mobile payment and wallet innovations that rely completely on accessible mobile technology.

References:

1. Alvares, Clifford,(2009) —The problem regarding fake currency in India.‖ Business Today; 3/8/2009, Vol. 18 Issue 5, p24-24.
2. Indian Institute of Management, Bangalore (2017). Going Cashless: Kirana stores & small retailers hold key, says new report based on research by IIMB and CDFI. Retrieved from <https://www.iimb.ac.in/node/4705>
3. Dr. Tushar Chaudhari, The Critical Analysis of Cashless Transaction. International Journal of Commerce and Management Research, ISSN: 2455-1627, Volume 3; Issue 3; March 2017; Page No. 92-94.
4. Dr. Budheshwar Prasad Singhraul, Cashless Economy – Challenges and Opportunities in India. Pacific Business Review International, Volume 10 Issue 9, March 2018.
5. Achord, S., et al. (2017). *A Cashless Society - Benefits, Risks and Issues*. London: Institute and Faculty of Actuaries.

6. Aguir, A. (2018). Central Bank Credibility, Independence, and Monetary Policy. *Journal of Central Banking Theory and Practice*, 7 (3), 91-110.
7. Bouveret, A. and Haksar, V. (2018). What Are Cryptocurrencies? *Finance and Development*, 55 (2), 26 – 29.
8. P.B. Metri, D. Jindappa. Impact of cashless economy on common man in India. *Imperial Journal of Interdisciplinary Research*. 2017; 3(3), 1-3.
- 9 Garg, P., & Panchal, M. (2017, 04). Study on Introduction of Cashless Economy in India 2016: Benefits & Challenge"s. *IOSR Journal of Business and Management*,19(04), 116-120. doi:10.9790/487x-190402116120.