CASHLESS ECONOMY IN INDIA

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Abstract: Growing at seven percent every year, India's economy is strong, but still heavily dependent on cash. India's cash-to-GDP ratio, at 12 percent, is among the highest in the world, and the massive informal sector is shot through with leakages. Until last year, cash was used in 95 percent of all transactions in India. And many consumers did not have formal accounts. But this scenario is rapidly changing. In the last couple of years, the government has been setting policies to speed the migration from cash to digital payments from demonetising high denomination currency notes, to increasing competition in private sector finance, to setting up technology platforms as public goods that innovators can build upon. Two recent government reports - by the Watal Committee and the Chief Minister's Panel - lay out a path to a cashless India with a set of recommendations that if followed, could lead the country to lead the way when it comes to digitising the economy and deliver full financial inclusion in the next few years. In this article to find out the challenges and opportunities of cashless economy in India.

Keywords: - Digital Economy, Cashless Economy, GDP, Denomination

1. Introduction

Cash is like water a basic necessity without which survival is a challenge. Nevertheless, cash use doesn't seem to be waning all that much, with around 85% of global payments still made using cash. One of the main reasons is that there is nothing to truly compete with the flexibility of notes and coins. Of course, the digital era is something to embrace, and new methods of payments will continue to be introduced. But Indians need to recognize the risks and benefits of different payment instruments, the risks associated with electronic payment instruments are far more diverse and severe. Recently lakhs of debit card data were stolen by hackers; the ability of Indian financial institutions to protect the electronic currency came into question also an important reason why people favour cash. In a courageous move to combat black money and counterfeit currency, Narendra Modi's government scrapped currency notes of INR 500 and INR 1000 denominations, which is seen as an unprecedented measure, though a giant leap towards curbing corruption and forged currency. The declaration created confusion across the spectrum, as these high-value notes form around 86% of total legal tender. However, the whole isometrics of moving from cash-driven economy to cashless economy has somehow been assorted with demonetisation that was aimed to extract liquidity from the system to unearth black money. Prime Minister Narendra Modi acknowledged the fact in his monthly radio programme, 'Mann Ki Baat' that making the transition to cashless economy is challenging, and hence has urged the public to move to 'less-cash' society. A report by Boston Consulting Group (BCG) and Google India revealed that last year around 75 percent of transactions in India was cash-based, while in developed nations such as the US, Japan, France, Germany etc. it was around 20-25 percent. The depletion in cash due to demonetisation has pushed digital and e-transactions to the forefront; e-banking, e-wallets, and other transaction apps becoming prevalent.

What is a cashless economy and where does India stand?
A cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal.

India uses too much cash for transactions. The ratio of cash to gross domestic product is one of the highest in the world - 12.42% in 2014, compared with 9.47% in China or 4% in Brazil.

Less than 5% of all payments happen electronically.

The number of currency notes in circulation is also far higher than in other large economies. India had 76.47 billion currency notes in circulation in 2012-13 compared with 34.5 billion in the US.

Some studies show that cash dominates even in malls, which are visited by people who are likely to have credit cards, so it is no surprise that cash dominates in other markets as well.

**Why a Cashless Society**

Opportunities and Benefits of Cashless Economy

- Cashless transaction does away with any hassle to carry cash.
- It is in keeping with the worldwide trend. People need not carry any cash in various countries around the world as most of the transactions there are done electronically.
- In digital transactions, you can view history of your expenses at one go which helps you to manage your budget easily.
- Since cashless transactions are traceable, they invite payment of taxes, wherever applicable, thus ruling out use of black money.
- Reduced instances of tax avoidance because it is financial institutions-based economy where transaction trails are left.
- It will curb generation of black money.
- Will reduce real estate prices because of curbs on black money as most of black money is invested in Real estate prices which inflates the prices of Real estate markets.
- In Financial year 2015, RBI spent Rs 27 billion on just the activity of currency issuance and management. This could be avoided if we become cashless society.
- It will pave way for universal availability of banking services to all as no physical infrastructure is needed other than digital.
- There will be greater efficiency in welfare programmes as money is wired directly into the accounts of recipients. Thus, once money is transferred directly into a beneficiary’s bank account, the entire process becomes transparent. Payments can be easily traced and collected, and corruption will automatically drop, so people will no longer have to pay to collect what is rightfully theirs.
- There will be efficiency gains as transaction costs across the economy should also come down.
- 1 in 7 notes is supposed to be fake, which has a huge negative impact on economy, by going cashless, that can be avoided.
- Hygiene - Soiled, tobacco stained notes full of germs are a norm in India. There are many such incidents in our life where we knowingly or unknowingly give and take germs in the form of rupee notes. This could be avoided if we move towards Cashless economy.
- In a cashless economy there will be no problem of soiled notes or counterfeit currency.
- Reduced costs of operating ATMs.
- Speed and satisfaction of operations for customers, no delays and queues, no interactions with bank staff required.
A Moody’s report pegged the impact of electronic transactions to 0.8% increase in GDP for emerging markets and 0.3% increase for developed markets because of increased velocity of money.

As tax collections become easy through the cashless mode, it accelerates the pace of economic development, making it easier for the government to spend on education, health care, employment generation, infrastructure and the overall welfare of the people.

Increased tax collections lead to reduction and simplification of the tax structure.

Transfer of monetary benefits to the poor and the needy through bank transfer rules out their exploitation by the unscrupulous middle men.

Cashless transactions deal a body blow to counterfeit currency or distribution of black money through Hawala channels. It also cuts the supply of unaccounted money used in funding of criminal and terrorist activities.

It saves the government substantial costs in printing and circulation of currency notes.

Increased liquidity of money with the banks makes them lower their interest rates putting huge amounts of cash deposited with them to some productive use.

An increased use of credit cards instead of cash would primarily enable a more detailed record of all the transactions which take place in the society, allowing more transparency in business operations and money transfers.

This will eventually have the following chain effect:

- Improvement in credit access and financial inclusion, which will benefit the growth of SMEs in the medium/long run.
- Reduce tax avoidance and money laundering thanks to the higher traceability of all the transactions.
- The increased use of credit cards will definitely reduce the amount of cash that people will carry and as a consequence, reduce the risk and the cost associated with that.

2. Challenges in Cashless Economy

A major obstacle for the quick adoption of alternate mode of payments is mobile internet penetration, which is crucial because point-of-sale (PoS) terminal works over mobile internet connections, while banks have been charging money on card-based transactions, which is seen as a hurdle. The low literacy rates in rural India, along with the lack of infrastructure like internet access and Power make things extremely difficult for people to adopt e-transaction route.

The financial safety over the digital payment channels is important for pushing the cashless economy idea. Imagine losing your credit cards or being the victim of digital hackers can lead to a whole host of issues like denied payment, identity theft, account takeover, fraudulent transactions and data breaches. According to the digital security company Gemalto, more than 1 billion personal records were compromised in 2014.

- Availability of internet connection and financial literacy.
- Though bank accounts have been opened through Jan Dhan Yojana, most of them are lying un-operational. Unless people start operating bank accounts cashless economy is not possible.
- There is also vested interest in not moving towards cashless economy.
- India is dominated by small retailers. They don’t have enough resources to invest in electronic payment infrastructure.
- The perception of consumers also sometimes acts a barrier. The benefit of cashless transactions is not evident to even those who have credit cards. Cash, on the other
hand, is perceived to be the fastest way of transacting for 82% of credit card users. It is universally believed that having cash helps you negotiate better.

- Most card and cash users fear that they will be charged more if they use cards. Further, non-users of credit cards are not aware of the benefits of credit cards.
- Indian banks are making it difficult for digital wallets issued by private sector companies to be used on the respective bank websites. It could be restrictions on using bank accounts to refill digital wallets or a lack of access to payment gateways. Regulators will have to take a tough stand against such rent-seeking behaviour by the banks.

Despite the numerous State endeavors, India has always been driven by cash; while electronic payments are seen restricted to a small size of the population, compared to the cash transactions. Considering the demographics of India, two-thirds of the population live in rural areas, where farmers and poor people are still struggling to get their hands on their own money. As per Data in July this year, 881 million transactions were made using debit cards at ATMs and PoS terminals. Out of these, 92 percent were cash withdrawals from ATMs. The sole purpose for cards in Indian is to withdraw cash. Changing this mind set will be an uphill task. The last few days have clearly shown that the country is highly underpenetrated as far as ATMs per million people and it's the ATM which will help the government fulfill its ambition of financial inclusion as the ATM will play a key role in the last mile towards customer fulfillment which is self-service 24*7 which even a Business Correspondent or Micro ATM cannot do.

Currently, there is a mix of cash and cashless transactions happening across the country, while many enablers are working towards turning the cashless economy dream into a reality. We have taken big strides towards becoming a cashless economy; however it will take more than a generation to change the habit from cash to no cash transaction. Rushing the economy into a cashless state without proper planning and infrastructure will be disastrous and its consequences will be everlasting. A gradual move towards less-cash society as said by the Prime Minister is the right way forward. Also, important to note that if people start flocking to alternate currencies, governments could wind up losing much of their power to influence economic issues such as inflation and unemployment. The government can't set an interest rate for institutions lending in a currency it doesn't control.

**Steps taken by RBI and Government to discourage use of cash**

- Licensing of Payment banks
- Government is also promoting mobile wallets. Mobile wallet allows users to instantly send money, pay bills, recharge mobiles, book movie tickets, send physical and e-gifts both online and offline. Recently, the RBI had issued certain guidelines that allow the users to increase their limit to Rs 1,00,000 based on a certain KYC verification
- Promotion of e-commerce by liberalizing the FDI norms for this sector.
- Government has also launched UPI which will make Electronic transaction much simpler and faster.
- Government has also withdrawn surcharge, service charge on cards and digital payments

**3. Conclusion**

A part of Digital India programme, the concept of cashless economy in India is centred around the vision of transforming the country into a society, which is digitally enabled and empowered by several modes of cashless transactions. Consequently, digital modes like credit/debit cards, mobile wallets, banks pre-paid cards, UPI, AEPS, USSD, Internet
banking etc. have gained in currency, leading to cashless India in near future. There are difficulties in implementing the idea of cashless economy in a vast country like India where a large number of people are living under misery and poverty, yet a beginning had to be made someday. Today, there is a sea change in the mindset of people with regard to digital means of monetary dealings which are safe, easy, convenient and transparent. There is no place for black money or counterfeit currency in cashless India. However, the benefits of this move have now started trickling in with more and more people switching to digital modes of receiving and making payment. India is gradually transitioning from a cash-centric to cashless economy. Digital transactions are traceable, therefore easily taxable, leaving no room for the circulation of black money. The whole country is undergoing the process of modernization in money transactions, with e-payment services gaining unprecedented momentum. A large number of businesses, even street vendors, are now accepting electronic payments, prompting the people to learn to transact the cashless way at a faster pace than ever before. India continues to be driven by the use of cash; less than 5% of all payments happen electronically however the finance minister, in 2016 budget speech, talked about the idea of making India a cashless society, with the aim of curbing the flow of black money. Even the RBI has also recently unveiled a document - “Payments and Settlement Systems in India: Vision 2018” - setting out a plan to encourage electronic payments and to enable India to move towards a cashless society or economy in the medium and long term. All these developments are considered to be good for the healthy growth of the economy.

4. Reference

[8] https://transformingindia.mygov.in/category/economy/cashless_economy/