

# Making Towards a Cashless Economy – An Indian Perspective

**Kanika Mittal**

Assistant Professor, Department of Commerce

*Dyal Singh College, Karnal*

## Abstract

Across the Globe there is immense curiosity to explore the prospects of moving towards a cashless economy. Cashless economy is an economic condition which discourages use of currency as a medium of exchange and encourage digital mode as an alternative. Indian Economy is majorly cash driven economy where people choose to carry cash instead of cards and other e-payment solutions. Demonetization has played a major role in making India a cashless economy. Although a move towards cashless economy will help to reduce expenditure, increase employment, lessen risk of carrying cash, encourage more transparency and decrease the size of the grey economy yet there are various challenges that obstruct in the successful implementation, such as the security of cashless solutions, mobile internet penetration which is imperative for the point of sales terminal, digital literacy and the fine digital infrastructure. Furthermore analysis has been done on the secondary data which shows that the introduction of cashless economy in India can be seen as a step in right direction. It helps in growth and development of an economy in India.

**Keywords:** cashless society; Cashless Economy; Grey economy; Demonetization; Electronic Payment Solution; Digital economy.

## Introduction

Demonetization has played a big role to spread out the concept of digital transactions in India. It has forced the people to use digital platforms to make payments. Most of the people have started using electronic media for their day to day transactions. This in turn helps to keep in track detailed record of all the transactions, ensure more transparency in business related operations and money transfers.

A Cashless economy is an economy where maximum transactions takes place through

transfer of digital information electronically without using the physical cash or the means of hard cash between the transacting parties. It is the economy where economic transactions takes place using electronic channels like mobile wallets, internet banking, banking cards (credit card, debit cards etc), point of sales machine, UPI etc. This is fully supported by the Indian government. The **Digital India programme** by government of India is an effort to transform India into a digitally empowered nation.

**Sweden** is the most cashless economy of the world. It mostly use debit cards and its mobile payment app, Swish for reducing the circulation of cash in the country. Sweden's central bank, Riksbanken, estimates that between 2012 and 2020, cash in circulation will have declined by 20–50 per cent. According to Payment Habits in Sweden (Risbank 2018) cash now accounts for only 13% of payment stores. **Vietnam** also declared to become 90% cashless retail economy by 2020. According to Vietnam insider, South Korean payment servicer Alliex has partnered with Vietnam's central bank to develop a cashless payment network accessible to banks and retailers, helping the country's broader effort to move away from a cash-based economy.

### **Objective of my study**

1. To study the concept of cashless society, cashless economy and digital economy.
2. To understand the benefits and challenges of cashless economy in India.
3. To study the scenario of digital transactions globally.
4. To study the current situation of cashless economy in India in comparison to previous years.

### **Methodology**

This study is descriptive in nature and is based on the secondary data. The data is taken from authentic and reliable source i.e. **RESERVE BANK OF INDIA**, well renowned journals & reports, and international articles. Relevant websites have been consulted in order to make the study more effective.

### **Literature Review**

Maurya, (2019) in her article “Cashless Economy and Digitalization” opined that

Government is promoting cashless economy through various modes like BHIM app, AEPS, Digital etc. The Cashless economy requires strong digitalization.

Kousalya & Shankar, (2018) in their article, “Cashless economy/transaction” revealed that India is gradually transitioning from a cash-centric to cashless economy. Nation is undergoing the process of modernization in monetary transactions, with electronic payment services gaining unprecedented momentum.

Jain, (2017), in her article “Making towards a cashless economy: challenges and opportunities for India” opined that the impact of Demonetization on taxes would be negative because of compression in demand. The demand for gold and luxuries will increase as have attempted to convert cash balance into such metal. She also said that collapse of confidence has affected not just domestic investors but also their foreign counterparts. Further she said that if cash is deposited in banks and returns to circulation as cash, then Indian economy will dramatically return to its past glory. But if black money did not return to the system, then the resurgence in growth may prove to be a challenge in an already sluggish investment scenario.

Balaji & Balaji (2017) in their article “A study on demonetization and its impact on cashless transaction” said that cashless transactions helps in not only making transaction convenient, it also hinders the spread of unaccounted money in the system. The demonetization in countries such as Myanmar, Soviet Union, Australia, Ghana, Nigeria and Pakistan was also discussed

Jain, P.M (2006) in the article “E-payments and e-banking” opined that e- payments will be able to check black money”. Taking maximum advantage of technology, safe and secure quick

payments and remittances will ensure optimal use of available funds for banks, financial institutions, business houses and common citizen of India. The need and modes of e-payments and communication networks are also being emphasized.

Vincent, (2005) in the article “Credit cards – Modern payment system”, said that credit cards are indeed a blessing for the Indian Economy. He also tried to find out reasons of preventing non cash methods in India.

## **Important Concepts**

### **Cashless Economy**

A cashless economy is a system where monetary transactions are done through digital means like debit cards, electronic fund transfer, mobile payments etc rather than the use of cash.

### **Cashless Society**

Cashless society is an economic concept where financial transactions are executed in an electronic format. The transaction may be executed in the form of Credit card, Debit card, Mobile wallet, Point of sales (POS), Internet banking, Mobile banking etc.

Examples: - Payoneer, PayPal, Money Bookers, Google Wallet, Amazon Go and so on.

### **Digital Economy**

The Digital Economy is an economy wherein majority of the activities becomes paperless and are accomplished with the help of electronic media.

**Cashless transaction** means financial transaction handled by means of credit cards, bank transfers, checks with no bills and coins handed from one person to another. Various modes can be stated as follows:-

- Banking cards
- Point of sale (PoS)
- Mobile banking Micro ATM
- Unstructured Supplementary Service Data (USSD)
- Unified Payments Interface (UPI)
- Internet banking

### **Benefits of Going Cashless**

1. **Convenience** The ease of conducting financial transactions is the biggest motivator to go cashless, especially useful in case of emergencies.
2. **Transparency** It will drive the development and transformation of the payment system, promote transparency and accountability, and reduce transaction costs.
3. **Reduction in expenditure** Digital payments indirectly reduces expenditure in dropping need for printing of currency notes and its transportation.
4. **Helps in Tracking spends** On record transactions are quite easy for people to keep track of their spending. It also helps while filing income tax returns and, in case of any scrutiny, it is easy to explain the spending.
5. **Elimination of Fake Indian Currency Notes** Paper currency makes easier to create FICNs, but once economy goes cashless it will not be possible to do so.
6. **Risk reduction** If stolen, it is easy to block a credit card or mobile wallet, but it's impossible to get your cash back. Digital methods are very helpful while travelling, especially abroad, where loss of cash can cause great inconvenience. Besides, if the futuristic cards evolve to use biometric ID (fingerprints, eye

scan, etc), it can be extremely difficult to copy, making it a very safe option.

Recently **The Federal Bank of India** has formed a partnership with MasterCard to use its global authentication program with the latest EMV 3-D secure standards as a secure and user-friendly way to authenticate cardholders online without static passwords.

7. **Tax revenue** Going cashless means all the transactions are traceable to a bank account hence one cannot hide their earnings easily. Thus this will lead to more people paying the actual Income Tax which they are supposed to.
8. **Elimination of Grey Economy** The grey economy can be curbed as crimes, terrorism and drug trafficking etc. all thrive on Black money.

## **Government's Road to Cashless Economy**

### **1. BHIM (Bharat Interface for Money)**

Bharat Interface for Money (BHIM) is an app that makes payment transactions simple, easy and quick using Unified Payments Interface (UPI). It enables direct bank to bank payments instantly and collects money using a Mobile number or Payment address.

### **2. BHARAT BROADBAND NETWORK (BBNL)**

Bharat Broadband Network Limited is a special purpose vehicle set up under Companies Act by Government of India with an authorized capital of Rs. 1000 Cr. It has been mandated to create the National Optical Fiber Network (NOFN) in India. A total of around 2, 50,000

Gram Panchayats spread over 6,600 Blocks and 641 Districts are to be covered by laying incremental fiber.

### **3. DigiDhan ABHIYAAN**

This initiative enables citizens and merchants to undertake real time digital transactions through the DIGIDHAN Bazaar. It helps the handheld users in downloading, installing and using various digital payment systems for carrying out digital transactions.

### **4. Appointment of High Level Committee on deepening of digital payments.**

The committee recommended the Government should take the lead on all aspects of digitization of payments. It encourages banks and non-banks to continue to compete, innovate and grow the ecosystem. It focuses on the Expansion of the acceptance infrastructure across the country, reducing the total cost to the consumer such as KYC process at multiple stages of the transaction and service charges for digital payments thereby mounting consumer confidence in digital transactions. For better protection from fraud and risk, the committee recommends that payment systems use machine driven, online dispute resolution systems to handle complaints. It also recommends the creation of shared fraud registries that must be created and used to grade each payment transaction for risk.

## **Analysis and Interpretation**

According to the Reserve Bank of India report on Digital Payments , the scenario of Digital Transactions (Globally) can be highlighted as follows:-

### No. of cashless transactions per capita per Annum (in millions)

COUNTRY	2015	2016	2017
Singapore	727.9	759	782.4
Sweden	428.8	481.4	497.9
USA	420.9	442.6	473.6
EURO Area	156.9	172.6	186.8
Russia	99.5	132.	178.5
Brazil	137.6	139.4	148.5
China	48.9	70.4	96.7
South Africa	68.7	78	96.7
Indonesia	23.4	28.4	34

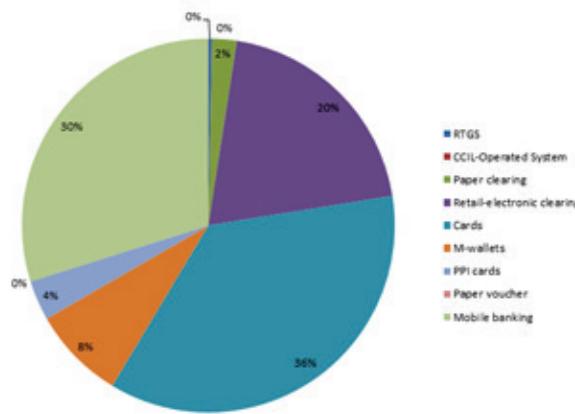
The above report clearly indicates that there is a widespread increase in the no. of Digital payments across the globe. China shows the maximum rise 97.75% followed by Russia and Indonesia. Therefore it shows that worldwide

there is an emphasis on digital modes of payments which is again a symbol of cashless economy.

Further the analysis for this paper is based on secondary data, sourced from RBI. The data gives a meaningful insight on India's road to cashless economy.

Components	August 2017 volume (million)	OCT 2019 volume (million)	Growth rate (%)
RTGS	9.46	12.892	36.27
CCIL-Operated System	0.27	0.26	-3.70
Paper clearing	94.81	89.80	-5.28
Retail-electronic clearing	442.79	839.95	89.69
Cards	1097.79	1517.66	38.24
M-wallets	225.43	339.32	50.52
PPI cards	35.67	145.50	307.90
Paper voucher	0.03	0.00	-100
Mobile banking	99.64	1252.53	1157.05
No. of ATMS	222568	229374	3.05
NO. of POS	2882422	4825074	67.39

The above data shows that, there is 1157.05% increase in the use of Mobile banking on one hand however on the other hand, there is 100% decline in use of paper vouchers. This change manifests that India is swiftly embracing cashless economy by progressively shifting to cashless Economy. This tells the future trend of Digital India.



The pie-diagram below depicts the share of various digital modes of payment in October 2019. According to the data given above, the cards have major share which stands at 36% then the mobile banking which stands at 30% share and RTGS, Paper voucher and CCIL operated system have the least share among all.

### Digital Transaction Metrics

The following chart shows digital transaction volumes, and values on a yearly basis over last 5 years.

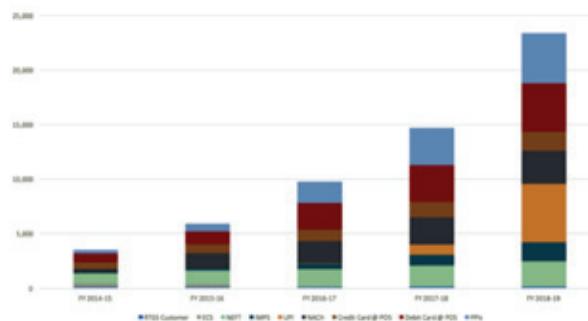


Figure 1 Digital Payments By Volume

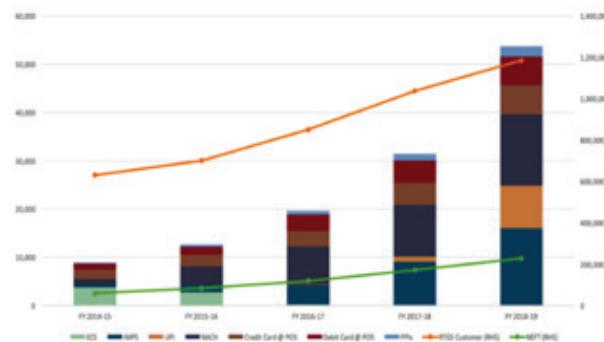


Figure 2 Digital Payments by Value

From the above table it can be observed that there is a significant rise in the volume as well as value of all the modes of digital payments from FY2014-15 to FY 2018-19. Also one of the useful metric to measure the growth of digital transactions in the country is the number of digital transactions per capita. This can be measured monthly from the RBI data as *Annualized Per Capita Transaction Volume = 12 X (Total Volume of Digital Payments for the month)/Population*.

### Challenges to cashless economy:

- Privacy and Security concerns** The security of cashless solutions is a major concern. At the same time, there are also privacy concerns that come with every transaction having a digital footprint, whereas cash is more anonymous in nature.
- Digital Literacy** Digital literacy is “The capability to use digital technology and knowing when and how to use it.” India needs to be digitally literate so that cashless transactions can take place.
- Required digital infrastructure** India needs digital infrastructure in adequate numbers as it is one the fastest moving economy of the world involving large number of transactions. The rural areas are still lacking in terms of good digital facilities.

4. **Weak Internet access** In India there is poor connectivity in rural areas. Lower literacy level in poor and rural parts of the country makes it problematic to push the use of plastic money on a wider scale.
5. **Resistant to the change** Despite effective public education campaigns there are a certain number of consumers who are resistant to the change, often elderly citizens who are not as tech-savvy as their younger peers.
6. **Limited availability of point of sale terminals:** Most of the POS terminals remain in urban / semi urban areas, due to which rural areas remain untouched.

## Conclusion

India is gradually transitioning from a cash-centric to cashless digitalized economy. It is indeed the need of the hour. Digital transactions are easily traceable; hence simply taxable thereby the scope of circulation of black money is quite less. Thus, it can be concluded that the Digital India programme by the Government of India will indeed transform India into a digitally empowered society and knowledge economy.

## References

1. Alvares, Cliford (2009). The problem regarding fake currency in India. Business Today; 3/8/2009, Vol. 18, Issue 5, p24-24.
2. Jain, P. M. (2006). *E-payments and E-Banking*. Indian Banker, March. pp.108-113.
3. Maurya, Pooja(2019).Cashless Economy and Digitalization
4. <https://businessnovice.net/definition/cashless-society/>
5. <https://sweden.se/business/cashless-society/>
6. <https://vietnaminsider.vn/>
7. <https://www.biometricupdate.com/201912/mastercard-online-authentication-technology-launches-in-india-as-banks-tap-biometrics>.
8. <https://www.businesstoday.in/current/economy-politics/rs-2000-note-controversy-what-is-forcing-rbi-to-stop-printing-fresh-notes/story/385206.html>
9. Rubble, M. and Bailey, G. (2007). Digital Citizenship in Schools. Eugene, OR: ISTE, p. 21
10. <https://digitalindia.gov.in/di-initiatives>
11. <https://www.ncr.com/company/blogs/financial/5-challenges-of-a-cashless-society>
12. Report on High Level Committee on deepening of digital payments may 2019
13. RBI Bulletin October 2017 and December 2019
14. <https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs>
15. <https://m.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=923#ANN>