

## **A STUDY OF CASHLESS ECONOMY- BENEFITS AND CHALLENGES IN INDIA**

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### **ABSTRACT**

A Cashless Economy is an economy in which all types of transactions are carried out through digital means. The cashless transaction is done by credit card, debit cards, net banking and other resources of electronic. The world is moving rapidly toward digitalization and there is no deny that it is present in almost all fields of our life like shopping, education, banking, bill payment etc. Today most of the people prefer e-transaction instead of carrying hard cash around. There is less dependence on the cash in cashless economy. Cashless transaction helps in decreasing various problems like black money, corruption, and terror financing. The purpose of the paper is to examine the growth of cashless transactions in India.

**Keywords: E-Transaction, Black Money, Corruption, Mobil Banking.**

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## INTRODUCTION

A cashless economy is an economy in which all type of exchange of goods and services is done by using digital means. Physical circulation of currency and notes is least in the static economy but it does take place because completely cashless economy is still imagination. India is far behind than other economies with regard to cashless transactions. A report by Boston Consulting Group (BCG) and Google India mentioned that last year around 75% of transactions in India was cash based while it was 20-25% in developed nations such as US, Japan, France, Germany etc. Another statistics have revealed that India has 76.47 billion currency notes in circulation in 2012-13 as compared with 34.5 billion in the U.S. (Bindra&Bindiya 2017). According to a 2014 study by Tufts University, The Cost Of Cash In India, cash operations cost the Reserve Bank of India (RBI) and commercial banks is about Rs21,000 crore annually. Also, a shift away from cash will make it more difficult for tax evader to hide their income, a substantial benefit in a country that is fiscal constraint. Several efforts are made by RBI and government to decrease the use of the cash in the country by promoting the digitisation. On November 8, 2016 it withdrew the highest currency notes of Rs. 500 and Rs. 1000 from circulation. This step was taken to decrease the volume of black money in Indian economy but is also showed to be a milestone in forcing the Indian economy towards a digitally transacting hub. Rs.500 and Rs.1000 notes together accounted for Rs.14.2 lakh crore which was 86.4% of the total currency in circulation as of 31st March 2016. This action pushed the economy to boost e-transaction due to reduction of cash in the country. In a traditional economy, notes and coins are mediums of making and receiving payments. But now in cashless economy, there are numerous digital mediums to transact like; internet banking, debit card, credit card, E- wallet, mobile based payments applications, NEFT, RTGS etc.

Table:1 Percentage of cashless transaction in different countries

Singapore	61%
Netherland	60%
France	59%
Sweden	59%
Canada	57%
Belgium	56%
UK	52%

USA	45%
Australia	35%
Germany	33%
Brazil	15%
China	10%

Source: Huge Thomas 2016, Measuring progress toward cashless society

## REVIEW OF LITERATURE

**Vincent, L. (2005)** in the article “Credit Card-Modern payment” provided information about credit card functioning in India. The study concluded that it was beneficial for the traders and consumers.

**Das, A. and Agarwal, R. (2010)** concluded in their article “Cashless payment system in India”- a Roadmap” that the country needs to move away from cash based towards a cashless payment system and it will decrease the black money, fraud etc. from the country.

**Bindra, R, and Bindiya (2017)** in their article “Going cashless stepping toward digital” examined the benefit of the cashless transaction. The study concluded that transparency will increase in the economy with the cashless transaction and it will lead to increase in GDP of the economy.

**Shendge, P. A. (2017)** examined the impact and importance of cashless transaction in India. The study concluded that cashless transaction is important for the whole country and it will help to reduce the cost of currency management, black money, fraud etc.

## OBJECTIVES OF THE STUDY

- To identify the benefit of going cashless.
- To find out the challenges of cashless transaction.
- To analyse the growth of cashless transactions in India.

## **RESEARCH METHODOLOGY**

The study is based on the secondary data. The data has been collected from RBI, articles, journals, papers, newspapers and relevant websites etc.

## **BENEFITS OF CASHLESS TRANSACTIONS**

**Less cash decrease crime:** Business and Individual can also avoid other cost, when people are encouraged to go cashless there is lesser cash available in the hands of the people. Those people who use ideal cash for illegal means will also diminish.

**More data available:** With the cashless transaction more data is available for the government. By the use of the data it improve the policies or Identify the pattern of activity and such Information for urban planning for sector like transport, housing etc.

**Reduction in the cost of production of coins and papers:** The cost of production of coins and paper currencies is increasing day by day. So, by the going cashless economy the cost of production decreases.

**Increase in transparency and accountability:** With the cashless economy it becomes easier to track the flow of money with every transaction being recorded with the buyer, sellers as well as regulatory bodies, making the system much more transparent and complaint. It leads to improve the economy.

**Decrease in corruption:** Due to cashless transaction through electronic means the wire transfers tracked and people are accountable which in turn reduced corruption.

**Less fear of being robbed:** The risk of the theft will continuous until the people carry cash and by going cashless the same can be decrease. This also leaves an impact on the government as they can than reduce the cost that the government spends on nabbing the culprits.

**Tracking of expenses:** It becomes easier to determine how much amount we are spending where.

**Save time and money:** By direct payment through bank account people do not need to go every day to deposit cash to current account. Government and business work with more efficiency and it decrease cost and time of accounting. In India cost of handling the cash is very high.

**Pack card:** With e-transaction there is no need to carry the bulky notes in a case. Just carrying a required card or mobile banking with suffices.

**Improve Economic Growth:** When a nation took step toward a cashless economy it will boost the economic growth can be expected. When consumption increases production also increase and it increase the employment.

## GROWTH IN CHASHLESS TRANSACTION

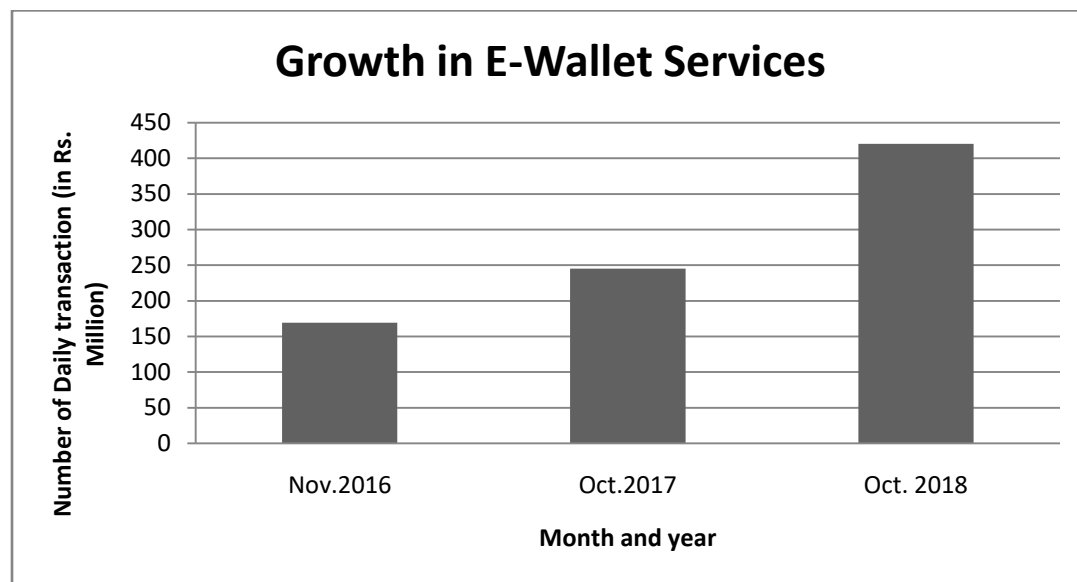


Table: 2. Growth of cashless transactions in India.(Payment and settlement systems)

System	Volume (Million)					Value (₹ Billion)				
	2016-17	2017			2018	2016-17	2017			2018
		Aug.	Sep.	Oct.	Oct.		Aug.	Sep.	Oct.	Oct.
1	2	3	4	5	6	7	8	9	10	
1 RTGS	107.86	9.46	9.61	10	11.86	1253652	113827.6	127730.7	115808	142152.6
1.1 Customer Transactions	103.66	9.16	9.32	9.71	11.58	849950.5	79157.81	91521.65	82084.42	97944.08
1.2 Interbank	4.17	0.3	0.29	0.29	0.28	13195	10005	10826.4	9971.	13912.

Transactions						3.3	.58	8	68	67
1.3 Interbank Clearing	0.018	0.002	0.002	0.002	0.002	27174 8.3	24664 .19	25382.5 7	23751 .9	30295. 81
2 CCIL Operated Systems	3.65	0.27	0.3	0.27	0.32	10561 73	87499 .01	92763.8 2	86873 .56	11501 7.6
2.1 CBLO	0.22	0.02	0.02	0.02	0.02	22952 8.3	22784 .18	23778.0 2	22981 .83	32597. 57
2.2 Govt. Securities Clearing	1.51	0.08	0.1	0.08	0.09	40438 9.1	31959 .78	34013.4 9	27863 .13	39571. 4
2.2.1 Outright	1.34	0.07	0.08	0.06	0.07	16874 1.5	9795. 75	11098.0 6	7604. 53	7701.8 6
2.2.2 Repo	0.168	0.017	0.018	0.016	0.021	23564 7.6	22164 .03	22915.4 2	20258 .6	31869. 53
2.3 Forex Clearing	1.93	0.17	0.19	0.18	0.21	42225 6	32755 .05	34972.3 1	36028 .59	42848. 59
3 Paper Clearing	1206. 69	94.81	94.37	96.41	98.9	80958 .15	6403. 59	6429.99	6478. 86	7025.3 6
3.1 Cheque Truncation System (CTS)	1111. 86	92.05	92.16	94.44	97.8	74035 .22	6224. 34	6271.53	6340. 16	6948.4 7
3.2 MICR Clearing	–	-	-	-	-	–	–	–	–	–
3.2.1 RBI Centres	–	-	-	-	-	–	–	–	–	–
3.2.2 Other Centres	–	-	-	-	-	–	–	–	–	–
3.3 Non-MICR Clearing	94.83	2.76	2.22	1.97	1.1	6922. 93	179.2 5	158.47	138.7	76.89
4 Retail Electronic Clearing	4204. 96	442.7 9	427.7 2	444.6 2	612.1 1	13225 0.1	13988 .09	15624.2 3	15598 .7	22035. 92
4.1 ECS DR	8.76	0.12	0.14	0.12	0.04	39.14	0.83	0.84	0.83	0.25
4.2 ECS CR (includes NECS)	10.1	0.63	0.48	0.5	0.66	144.0 8	10.96	9.6	10.72	16.03
4.3 EFT/NEFT	1622. 1	151.6 1	157.6 7	158.7 8	209.0 4	12003 9.7	12500 .38	14182.1 4	13851 .28	19227. 03
4.4 Immediate Payment Service (IMPS)	506.7 3	75.66	82.85	88.12	154.6 2	4111. 06	651.4 9	717.6	750.4 2	1403.0 7
4.5 National Automated Clearing House (NACH)	2057. 27	214.7 7	186.5 8	197.0 9	247.7 5	7916. 17	824.4 3	714.06	985.4 5	1389.5 5
5 Cards	12055 .87	1099. 84	1102. 84	1142. 16	1424. 97	30214	3073. 12	3163.59	3361. 88	4042.8 6
5.1 Credit Cards	1093. 51	115.9 9	113.2 9	124.0 4	161.9 7	3312. 21	366.0 3	377.76	422.6	565.96
5.1.1 Usage at ATMs	6.37	0.66	0.65	0.68	0.91	28.39	3.05	3.11	3.21	4.18
5.1.2 Usage at POS	1087. 13	115.3 3	112.6 3	123.3 6	161.0 6	3283. 82	362.9 9	374.65	419.3 9	561.78
5.2 Debit Cards	10962 .36	983.8 6	989.5 5	1018. 12	1263	26901 .79	2707. 08	2785.83	2939. 28	3476.9

5.2.1 Usage at ATMs	8563.06	718.41	724.26	739.72	869.61	23602.73	2352.96	2419.54	2530.58	2933.92
5.2.2 Usage at POS	2399.3	265.45	265.3	278.4	393.39	3299.07	354.13	366.29	408.69	542.98
6 Prepaid Payment Instruments (PPIs)	1963.66	261.14	240.29	245.18	420.2	838.01	102.88	109.77	116.98	221.28
6.1 m-Wallet	1629.98	225.43	199.48	201.23	368.45	532.42	72.62	81.54	86.6	187.86
6.2 PPI Cards	333.11	35.67	40.76	43.91	51.75	277.52	28.53	26.19	28.8	33.42
6.3 Paper Vouchers	0.51	0.03	0.04	0.04	–	25.36	1.72	2.05	1.58	–
7 Mobile Banking	976.85	97.89	113.94	154.49	526.93	13104.76	795.37	848.47	971.13	2368.77
8 Cards Outstanding	884.72	843.51	853.11	860.13	1041.28	–	–	–	–	–
8.1 Credit Card	29.84	32.65	33.34	33.87	42.68	–	–	–	–	–
8.2 Debit Card	854.87	810.87	819.76	826.25	998.61	–	–	–	–	–
9 Number of ATMs (in actuals)	222475	222568	221722	221314	220154	s	–	–	–	–
10 Number of POS (in actuals)	2529141	2882422	2900038	2958301	3450355	–	–	–	–	–
11 Grand Total (1.1+1.2+2+3+4+5+6)	19542.66	1908.3	1875.13	1938.63	2568.37	2282337	200230.1	220439.54	204486.06	260199.7

Source: Report of RBI

Table no. 2 depicts the growth of cashless transaction in India. RTGs system of transaction was increased total value (in billion) from Rs.115808 to Rs.142152.6 in Oct. 2016 and Oct.2017 respectively. Now, the transaction system e-wallet is going more popular. The table shows that total value of transaction done by e-wallet was 116.98 and 221.28 (in billion) in Oct. 2016 & Oct.2017 respectively. After demonetization from Nov. 2016 e-transaction are mostly preferred by customer. The mobile banking transaction is increased. The value of transaction of mobile banking in Oct. 2016 and Oct.2017 was Rs. 971.13 billion and Rs. 236.77 billion respectively. The data reveals that India is on path of modernization in money transaction. Now, mostly customers are preferred e-transaction system.

## CHALLENGES OF CASHLESS ECONOMY

**Illiteracy:** It is the biggest barrier for people to understand the change. There a still 30 percent population are illiterate. Illiterate people are not able to fill withdraw and deposit form. They have to take help of other people to fill the form. The main reason of this is lack of education and poor

education system of India. People are not aware of security of password. So it is must to improve the quality of the education system so that they can able to handle the bank account.

**Not enough bank account:** Still today, there are many people in India who do not have bank account. There are many reasons of it like illiteracy, lack of income, lack of information etc. People without knowledge of operating account are no way efficiency enough to operate the account.

**Lack of cyber security:** Security has become a main concern in banks. Many people are rejected to adopt e-banking facilities due to security afraid. In Oct. 2016 the detail of over 30 lakh debit cards was feared to have been exposed ATMs. It was believed that card and PIN detail might have been leaked due to which customer were advise to change the PIN of their ATMs. Stringent steps issuing new cards were also taken so these cybercrime is very dangerous to use cash less transaction.

**Lack of Infrastructure:** Lack of Infrastructure is the main problem of cash less transaction. Even today in many areas in India there are not available of banks at the door steps. People have to move to long distance to have their money transaction in banks. There are no ATMs facilities in rural areas so infrastructure should be improved.

**High Internet cost:** High internet cost is main problem of the cashless transaction. In India, the internet cost is still very high. There is no Wi-Fi in public place. If a people donot get monthly data recharge there is no way they can be connected to make online payments. For more convinces to people the cost of internet should be decrease and Wi-Fi facilities should be provide at public places.

**Transaction risk:** After the demonetization, people mostly preferred the cashless transaction through mobile banking or cards because it saves time. Many people have faced problem in standing line to pay for transaction at the shop when the card machines have stopped working due to overload in connection. This type of risk associated with internet banking. There will be error in the processing of transaction.



**Charges on card online transaction:** Many people do online transaction of payment for the convenience. But there are various additional charges that are levied by the bank due to that customers avoid the use of online transaction. The banks should decrease the charges on the online transaction so more people will be encouraged for online transaction.

**Internet blockage:** In disputed areas like Jammu & Kashmir often faced cracked down where the internet is the first thing that is blocked. In this situation cashless transaction is not possible.

## CONCLUSION

Cashless economy is not only important but it is the need of the hour. It has been seen that cashless have its positives and negatives impact on the banks. According to a report by Prince Waterhouse Cooper (2015), in India, unbanked population was 233 million approximately. So it is important to increase the awareness in the rural people about the benefit of cashless transaction and make them technical friendly. India cannot completely become a cashless economy considering its high proportion of digital illiteracy and cash transaction but Indian government is working towards increasing the share of cashless transitions which is a good thing for any economy. But there are various problems such as network problem, illiteracy, security problems, cyber security, internet cost, phone battery etc. Government should take good steps to improve the cashless transaction such as UPI (Unified Payment Interference), increasing awareness programmes, increase incentive programmes.

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