

INDIA TOWARDS CASHLESS ECONOMY: AN ANALYSIS

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Abstract:

“Cash may no longer be the king.”

Digitalization is rapidly growing worldwide and has changed the business landscape. Markets are in a transition phase, from grocery stores, hyper markets to electronic markets and use of plastic cards, online shopping and electronic payments etc. The RBI and the Government are making several efforts to reduce the use of cash in the economy by promoting the digital/payment devices including prepaid instruments and cards. Digital transactions bring in better transparency, scalability and accountability. Demonetization in the last decade has witnessed a sharp raise of cashless transactions. In coordination with other institutions, government has been moving from cash-based to a cashless system in order to increase efficiency which leads to the idea of a futuristic, cashless society. On this backdrop, the present study has been undertaken to analyze the implications of the cashless transactions for the sustainable development of the economy not only in India, but also in the entire globe.

Keywords: Digitalization, Cashless, Demonetization, Sustainable Development and Transparency

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1. INTRODUCTION:

The Information Technology and recent evolution of technology for financial transactions poses challenges for policy makers and financial institutions regarding the suitability of current institutional arrangements and availability of instruments to guarantee financial stability, efficiency and effectiveness of monetary policy. Over the course of history, different forms of payment systems have been in existence such as barter system and the problems of barter system necessitated the introduction of various forms of money. Digitalization brought in many remarkable changes in the economic policies and Cashless economy is the first important step towards this digital push. Demonetization step driven in the country lead to a great infusion among the people to move a step ahead towards the cashless society.

Financial services industry is going through an abrupt change due to emergence of technological innovation. Information and Communication Technology had a great impact on the banking sector. In this new fintech era banks in India are moving from conventional to convenience banking approach. It took a considerable amount of time to start and move towards this cashless society. Initially, it was not a substantial success but ultimately it has emerged. Now, it is progressing because of the worldwide internet availability with user-friendly software and hardware. RBI's effort to encourage these new varieties of payment and settlement facilities aims to achieve the goal of a 'less cash' society. The new move will compel more merchants to accept digital money.

For the promotion of cashless policy, ICT plays a major role. A Cashless economy is a situation of the non-existence of cash in an economy and transactions can be done through electronic channels like debit and credit cards, IMPS (Immediate Payment Service), NEFT, RTGS in India. Cashless is a game changer reform which consequently turns Indian cash economy into cashless economy. Digitization has the potential to transform India from a developing to a developed economy. Banks are the backbone of any economic system and they play a central role in modern financial system. Now-a-days conventional or traditional banking approach got converted into modern banking practices. Demonetization and the cashless path had influenced every corner of the society. For the proper implementation of cashless policy Banks require a huge investment in ICT and other technologies. The Indian payment system is moving towards

IT- based system. There will be ease in doing financial transactions by increased adoption of e-payment system.

The term less cash society and cashless transaction economy indicate the reducing of cash transactions and settlement rather doing transactions digitally. Cashless transaction economy doesn't mean shortage of cash rather it indicates a culture of people settling transactions digitally. In a modern economy, money moves electronically. Hence the spread of digital payment culture along with the expansion of infrastructure facilities is needed to achieve the goal. On 8th November 2016 the government had withdrawn Rs. 500 and Rs. 1000 notes- two highest denominations in circulation. Main objectives were to fight counterfeit money and black money. The action has given tremendous boost to cashless transactions as card based and digital payments were not hindered when all high denomination cash transactions suffered because of absence of high denomination currencies.

2. LITERATURE REVIEW:

According to Woodford (2003), "Cashless economy is one in which there are assumed to be no transactions frictions that can be reduced through the use of money balances, and that accordingly provide a reason for holding such balances even when they earn rate of return". For European Central Bank (1998), electronic money is broadly defined as an electronic store of money value on a technical device that maybe widely used for making payments to undertakings other than the issuer without necessarily involving bank accounts in the transactions, but acting as a prepaid bearer instrument.

Hord (2005) viewed that electronic payment is very convenient for the consumer. He further emphasizes that electronic payment lowers costs for businesses. Offering electronic payment can also help businesses improve customer retention. As Claudia and Grauwe (2001) define it, cashless society is a regime in which currency issued by the central bank has ceased to exist. Akinola (2012) studied the reliability and with the same which leads to loss of money and to spread awareness about the usage pattern of e-services. Gupta et al (2013) studied about the role of ICT based payment system in Indian banking security as a part of cashless society. These factors have been focused to lessen threats associated sector for better smoothening and

transparency of payment system. Singh (2013) focused on the growing trend of usage of internet in urban, semi urban and rural areas. Many demographic and other factors have been taken into consideration like – gender, age, income etc. to determine the choice of e-banking.

Midha (2016) discussed digitalization process and effectiveness of Digital India. Many factors have been discussed which proves to be a hindrance in the adoption of cashless society in its initial phase. Mathangietal (2017) examined service quality improvement through digital banking. There was a shift in technology through digital banking. The main motive behind digitalization is to push Indians towards cashless economy. It identifies challenges and opportunities at the initial stage of digitalization. Singh etal (2017) examined the changing behavior of buyers after demonetization along with its impact on the people who are not much aware of digitalization. It was then concluded that the consumer behavior is directly influenced by demonetization and also revealed the importance of digital literacy foe cashless transactions. Munjal (2017) revealed the impact of demonetization on businessman, shopkeeper, retailer etc. and also deficiency of money in the economy how consumer make their payment without cash i.e. how digitalization had influenced the payment system of consumers. Sudent (2017) focused on SWOT analysis of cashless economy in Indian context i.e. strength, Weakness, opportunities and threats for India from going cashless. Gujrati (2017) examined three roles of Digital India i.e. Faceless, paperless and cashless transactions. Khurana (2017) examined the role of Government in the promotion of cashless transactions in the economy and also the benefits of cashless economy and the disruptions for its implementation. Bindra (2017) examined both positive and negative impacts of cashless economy. Consequently in order to achieve the goal of digital India weakness of cashless transactions was accounted for. Ramya etal (2017) examined the role of RBI and the Government to encourage and implement less cash society. Dash (2017) studied the importance of cashless economy by focusing on steps needed initially so as to build up the critical network size. Tawade (2017) examined the role of cash by opposing less cash policy along with the risks and benefits related with e- payment instruments and also highlighted the benefits of cashless system.

Dalaien (2017) viewed that cashless economy is not beneficial to the general public. Thakur (2017) studied and identified the different types of cashless mode and various opportunities in the market. Garg etal. (2017) studied that introduction of cashless economy in India could be

seen as a step in the right direction for the proper growth and development in India. Kumari (2017) highlighted the hurdles in making the economy cashless. Also the policies and directions had been suggested towards making an enabled cashless economy.

3. OBJECTIVES & METHODOLOGY:

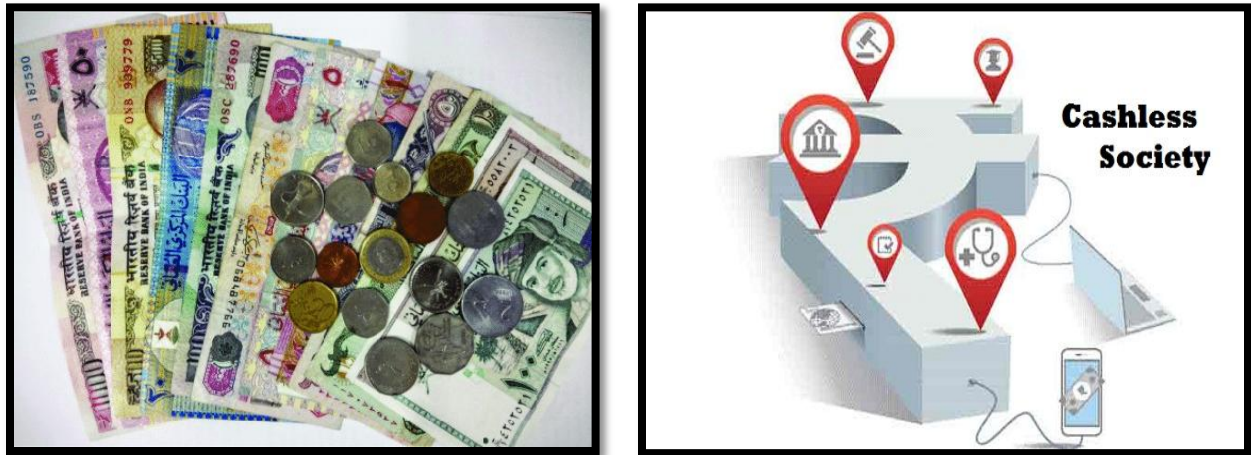
Since the boom of Internet, many remarkable changes have occurred in every sphere of the economy including the form and role of money in economic transactions. The evolution of money shaped from barter system to paperless cash / cashless system / e- cash in the present digital era. On this backdrop, present study *“INDIA TOWARDS CASHLESS ECONOMY: AN ANALYSIS”* has been undertaken with the under mentioned objectives:

1. To overview the evolution and significance of money, particularly cash.
2. To identify the global trends at present and evolution of Cashless System
3. To overview the advantages of Cashless System over Traditional System
4. To analyze the digital tools & techniques used in reaching the People
5. To overview the present status of Cashless System in India.
6. To analyze the constraints and to provide suggestions to popularize Cashless System and increase the transparency of the economy in India.

In order to accomplish the objectives, both primary and secondary data has been used. Primary data has been collected from sample respondents in Yanam region by using stratified random sampling technique and Secondary data has been obtained from various journals, reports, magazines and websites etc. The data pertaining to the study has been analyzed and presented in tables and figures to make the findings meaningful and easily understandable. Interpretation of data is based on rigorous exercises aiming at the achievement of the study objectives and findings of the existing studies. The study is of qualitative in nature rather than quantitative.

4. RESULTS & DISCUSSION:

Cashless economy does not mean a total elimination of cash as money will continue to be a means of exchange for goods and services in the foreseeable future. It is a financial environment that minimizes the use of physical cash by providing alternative channels for making payments. It is an economic system in which transactions are not done predominantly in exchange for actual cash. It is an economic setting in which goods and services are bought and paid for through electronic media.

Figure 1: Evolution of Money from Cash in form of coins & currency and Cashless Society

4.1. Global Trends and Cashless System

The trend towards use of non-cash transactions and settlement began in daily life during the 1990s, when electronic banking became popular. By the 2010s digital payment methods were widespread in many countries, with examples including intermediaries such as PayPal, digital wallet systems operated by companies like Apple, contactless and NFC payments by electronic card or smart phone, and electronic bills and banking, all in widespread use. By the 2010s cash had become actively disfavored in some kinds of transaction which would historically have been very ordinary to pay with physical tender, and larger cash amounts were in some situations treated with suspicion, due to its versatility and ease of use in money laundering and financing of terrorism, and actively prohibited by some suppliers and retailers, to the point of coining the expression of a "war on cash". By 2016 in the United Kingdom it was reported that 1 in 7 people no longer carries or uses cash. The 2016 United States User Consumer Survey Study claims that 75% of respondents preferred a credit or debit card as their payment method while only 11% of respondents preferred cash. Since the founding of both companies in 2009, digital payments can now be made by methods such as Venmo and Square. Venmo allows individuals to make direct payments to other individuals without having cash accessible. Square is an innovation that allows primarily small businesses to receive payments from their clients.

By 2016, only about 2% of the value transacted in Sweden was by cash, and only about 20% of retail transactions were in cash. Fewer than half of bank branches in the country conducted cash

transactions. The move away from cash is attributed to banks convincing employers to use direct deposit in the 1960s, banks charging for checks starting in the 1990s, banks launching the convenient Swish smart phone-to-phone payment system in 2012, and the launch of iZettle for small merchants to accept credit cards in 2011.

4.2. Cashless System in India

In India, the RBI and the Government are making several efforts to reduce the use of cash in the economy by promoting the digital/payment devices including prepaid instruments and cards. RBI's effort to encourage these new varieties of payment and settlement facilities aims to achieve the goal of a 'less cash' society. With limited cash in hand and an indefinite crunch in sight, most people are rushing to cashless transactions. Digital transactions bring in better transparency, scalability and accountability. The new move will compel more merchants to accept digital money. Here, the term less cash society and cashless transaction economy indicate the same thing of reducing cash transactions and settlement rather doing transactions digitally. Cashless transaction economy doesn't mean shortage of cash rather it indicates a culture of people settling transactions digitally. In a modern economy, money moves electronically. Hence the spread of digital payment culture along with the expansion of infrastructure facilities is needed to achieve the goal.

In 2016 with the ban of big currency notes 86% of currency notes in India were became just mere pieces of paper. The main objective was to curb black money and eliminate circulation of fake currency in the Indian economy. India is a cash centric economy where less than 5% of all transactions happen by money. But with demonetization there resulted a currency crunch and many people started making online payments. Thus Demonetization took an unprecedented turn of trying to make India move towards a cashless economy. Cashless transaction means using debit, credit cards, internet banking, e-wallets for making payments instead of paying in hard cash. Cashless economy has its own pros and cons.

4.3. Merits of Cashless Economy

1. Electronic payments will help business people to boost their customer base even in far of geographic locations and hence will result in enhanced business

2. The real estate prices will come down because of curb on black money, as most of the black money is invested in Real estates
3. Electronic payments will improve transparency and accountability. Most of the cashless societies are corrupt free as all the transactions are being traced, are visible and are transparent.
4. Making online payments are handy and it will lead to slim wallets as people need not carry cash.
5. Majority of election funding is done through Black money. Cashless transactions will make it impossible for political parties to spend thousands of crores of unaccounted money on elections. Buying votes by giving cash will also come to an end. True democracy will come into picture.
6. Amount of tax collected will also increase, and it can be spent for the betterment of poor and under privileged people.
7. Generation of counterfeit currency will be reduced and hence terrorism can be prevented.
8. It will reduce pick pocketing and robbery of cash in crowded locations.
9. Through online payment one can view history of their expenses and plan their budget in a smart way.
10. Printing costs of notes and maintenance itself is accounting to 27 billion; this can be removed by electronic payments as there would be no need of paper currency.

Figure 2: Benefits of Cashless Transactions



The cashless system which is cultured to the use of e-payment increases profitability through the following ways:

- i. Convenience - removing administrative resources required by invoices, cheque and cash
- ii. Immediacy - credit cards enable instant purchases without delay

- iii. Improved cash flow - payment at the time of purchase reduces the pressure caused by 30days invoicing
- iv. Growth – opens additional payment channels via the phone, mail order, internet and increases customers’ base. More customers means more revenue
- v. Competitive advantages –match and beat the services of competitors and gain the edge.

4.4. Demerits of Cashless economy

1. Many of the rural people and even some urbanites still do not have a functional bank account in order to make online payments.
2. A majority of India’s population is in rural locations, and there are no proper internet facilities available to make online payments.
3. People in rural areas are not educated about the digital mode of payments.
4. There are still some places which take cash and do not accept cards. Making a purchase at such locations with card becomes difficult. Small retailers in India still deal only in cash as they cannot afford to invest in digital infrastructure.
5. Cash is not under your control, you will try to spend excessively.
6. If you lose your debit/credit card, it takes some time to get a new one.
7. Hacking and cyber theft are challenging problems which can be caused by online transactions. Cyber Security measures have to be brought in place to prevent money going into wrong hands.
8. Even in big cities, sometimes online transactions cannot be made because of poor internet facilities.

4.5. Recommendations

1. Government should provide uninterrupted power supply and adequate communication link while shortfall should be covered by banks through back-up arrangement to power standby generator in case of power outage;
2. Government should also support banks in the aspect of financing the payment system which requires a lot of capital to maintain;
3. Government and the CBN should create awareness on the benefits derivable from cashless policy for the improvement of businesses and economic development;

4. Skilled manpower and computer experts should be employed by every bank to prevent fraud and hacking of banks' data to steal customers' fund;
5. Electronic payment system is capital intensive, therefore banks are encouraged to collaborate to finance some of the infrastructures needed for the smooth implementation of the policy by sharing cost to reduce the initial cost of setting up electronic banking;
6. Government should provide adequate security so as to create safe environment that will make people to imbibe the policy.

5. CONCLUSION:

The prime objectives of the bold move that the NDA government at the centre has taken is to curb the black money which forms a parallel economy in the country and eliminate the circulation of fake currency from the Indian economy. Terrorist financing is another main issue that prompted the government to go ahead with the demonetization move.

The move has by and large received the support of the Indian public despite the hardships being faced by them. A lot has been said and written about the scheme with both support and criticism pouring in from many quarters. The parliament remains paralyzed with the opposition and the government in serious disagreement over the issue. The government is now trying to move ahead towards a *Cashless Economy* and has launched a campaign to encourage people to shun liquid money altogether. Cashless transaction means using debit cards, credit cards, internet banking, e-wallets, etc for making payments and purchases instead of using hard cash.

However, conceptually cashless society is beneficial and that is why everyone is praising the decision. There are teething pains for sure....mind that this is first time in recent history anywhere in the world such massive transformation is implemented in such a short period. It has taken other developed countries generations to move from reliance on cash to a cashless society. The introduction of cashless system has a strong influence on the development of payment system. However, it involves commitment of huge amount of financial resources on computer technology, telecommunication facilities and constant electricity. So the government should adopt the above suggestions in order to achieve desired results like other developed countries.

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