

“TRANSFERRING CASH TO CASHLESS ECONOMY IN DIGITAL INDIA”

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Abstract: -

In the modern age of digitization, the Indian government is trying to develop a cashless economy in place of the existing custom of physical currency in India. The biggest challenge for saving cash is maintaining a balance between ease of financial transactions and curbing malpractices. To deal with the problems of black money, Hawala, money laundering, the Government of India embarked on a cashless economy. Digital money has ushered in a new era of the Indian economy. The purpose of this paper is to identify the impact, issue and future trends of would face in implementing a cashless economy and possible measures to overcome them. This article focuses on understanding the cashless system in India and highlights the significant obstacles faced by the cashless economy and electronic payment systems. An exploratory study was conducted to calculate the transaction costs borne by customers and banks on the journey to a cashless society.

Keywords: Digitization, Indian Economy, Technological Advancement, Paperless Transactions

Introduction: -

Mr. Narendra Modi, the Prime Minister of India launched the Digital India Plan on 1 July 2015 with the idea of transforming the Indian economy into a digitally developed country and formulating the economy from cash to cashless. A cashless economy means a state where all monetary transactions take place through digital channels and cash transactions do not exist in the economy. In other words, cashless economy is a type of economic system where all kinds of economic transactions are implemented through digital modes like debit cards, credit cards, point of sale machines, internet banking, mobile wallets etc. Government of India & Central Bank of India are constantly seeking to reduce the use of cash in society by encouraging people to use digital payment methods. Cashless economy helps to check the expansion of black money, tax evasion and illegal business activities in the society. Therefore, nowadays most countries are using digital payment methods and moving from a cash to a cashless economy. Now, for the expansion of electronic or digital payment practices in society, basic equipment is required for the successful implementation of the cashless

economy vision.

History of Cashless Economy in India: -

A cashless economy refers to all financial transactions in the economy that will take place through plastic money, online payments, payment gateways or any other electronic form. The primary objective of the cashless economy is to cover current unrecorded transactions. Government of India is trying to achieve the goal of cashless economy through various means which include Credit and Debit Cards, Unified Payments Interface (UPI), Unstructured Supplementary Services Data (USSD), Aadhaar Payment System (AEPS), Mobile Wallets, Bank Pre-Paid Cards, point of sale, internet banking, mobile banking and micro ATMs etc. Even though India has adopted digital payment system in its economy, it still has a long way to go. Countries like Denmark, Sweden, Canada, South Korea, etc. have a very high percentage of cashless transactions - about 85-90%. Norway stopped issuing checks. For these countries, the task of cash economy is easy than India as these countries are much smaller than India, have a large educated population, higher penetration of organized retail and higher awareness of digital transactions than India.

Early ideas of a cashless economy were expressed by Edward Bellamy in his novel Looking Backward. The trend towards using cashless transactions and settlements in everyday life started during the 1990s when electronic banking became common. By 2010, digital payment methods were widespread in many countries, with examples including intermediaries such as PayPal, digital wallet systems such as Apple Pay, contactless and NFC payments by electronic card or smartphone, and electronic accounts and banking, all on a large scale. At this point, cash became actively disadvantaged in some kinds of transactions that historically would have been very common to pay with physical tenders, and larger sums of money were treated with suspicion in some situations due to their versatility and ease of use in money laundering and terrorist financing. In addition, some suppliers and retailers have actively banned payments with large amounts of cash, to the point of coining the term "wars on cash". A 2016 consumer survey of users in the United States reported that 75% of respondents preferred a credit or debit card as their payment method, while only 11% of respondents preferred cash. Since both companies were founded in 2009, digital payments can now be made through methods like Venmo and Square. Venmo allows individuals to make direct payments to other individuals without having access to cash. Square is an innovation that primarily allows small businesses to accept payments from their clients.

By 2016, only about 2% of transaction value in Sweden was cash, and only about 20% of retail transactions were in cash. Less than half of the country's bank branches carried out cash

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

Objective of the Research:

- To Study Consumer awareness on Cashless Transactions.
- To measure the impact of Cashless Transaction System.
- To study the issues & future trends of cashless economy in India.

Research Methodology: -

For this study qualitative and quantitative both research methods are used. Data for study was collected from primary as well secondary sources.

Primary Data: - Primary data for research is collected through structured questionnaire.

Population size: - This Study is related to all the Banks and the Consumers across India.

Sample Size: - Customers - 50 different customers residing in India.

Banks - In this research sample researcher have considered 12 banks of India. The reason for selecting India region as my sample is that India is the developing country. Bank managers and officers’ responses had been reported through interviews.

Secondary Data

Secondary data was gathered from various sources viz: books, reports, journals, published papers.

Data Analysis and Interpretation:

Q. 1 Reasons for consumers to adopt cashless transactions:

Not only financial inclusion is a reason to shift from a cash-based system to electronic payments, but there are other reasons as well.

Diagram 1:

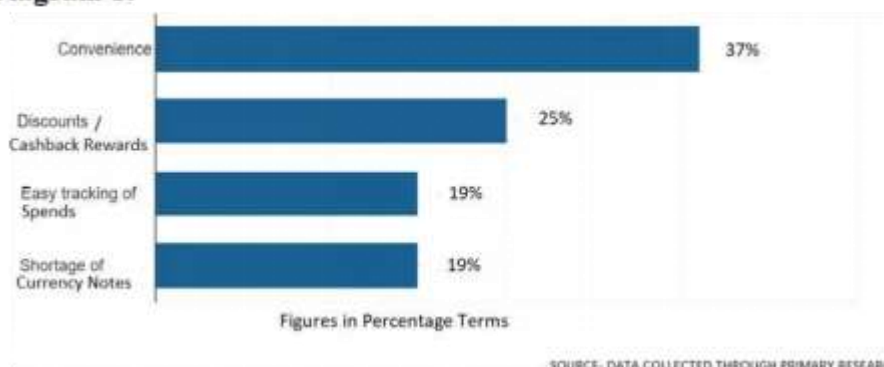
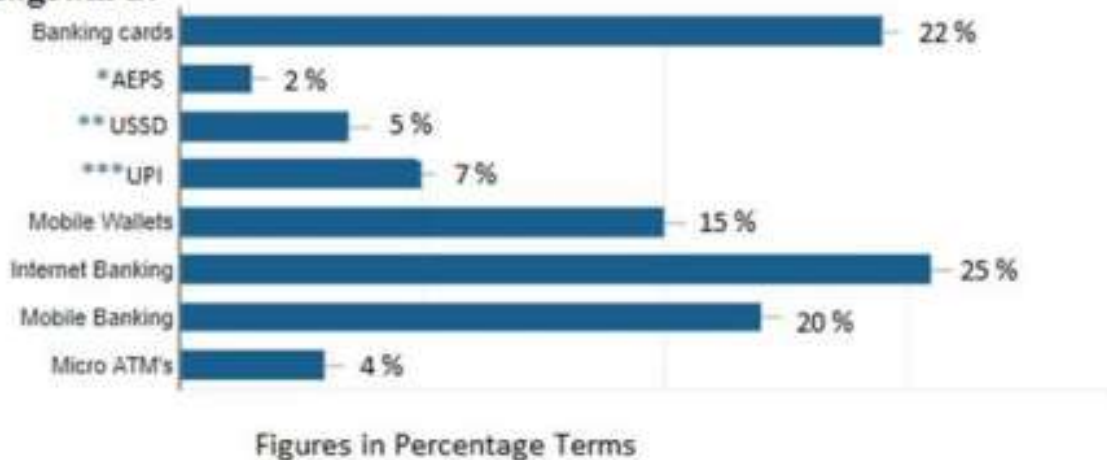


Chart 1 above shows that customers do not adopt a cashless payment system only because it is convenient for them. There are also other reasons, for example discounts / cashback rewards entice customers to adopt a cashless payment system. According to the study, the majority of digital payments preferred for food/drinks, travel, entertainment, utility bills, shopping and government services are by card, followed by cash, cheques, bank transfers and mobile payments.

Q. 2 Familiarity of electronic payment systems among consumers:

The Digital India Program is a flagship program of the Government of India with a vision to transform India into a digital society and knowledge economy. As part of promoting cashless transactions and transforming India into a less cash society, various digital payment options are available.

Diagram 2:



SOURCE- DATA COLLECTED THROUGH PRIMARY RESEARCH

[*Aadhaar Enabled Payment System **Unstructured Data Ancillary Services ***Unified Payment Interface]

With the advent of the Aadhaar system in the Indian economy, great concerns have been raised for AEPS. Diagram 2 above is a clear revelation that AEPS as an emerging electronic payment system is rather a relatively unknown regime.

Q.3 Consumers' biggest concern around cashless payments

Consumers would move from a cash-dependent society to a cashless society, but they still resist cashless transactions due to the security issue, poor internet connectivity, merchant acceptance, transaction costs and lack of technological know-how.

Diagram 3:

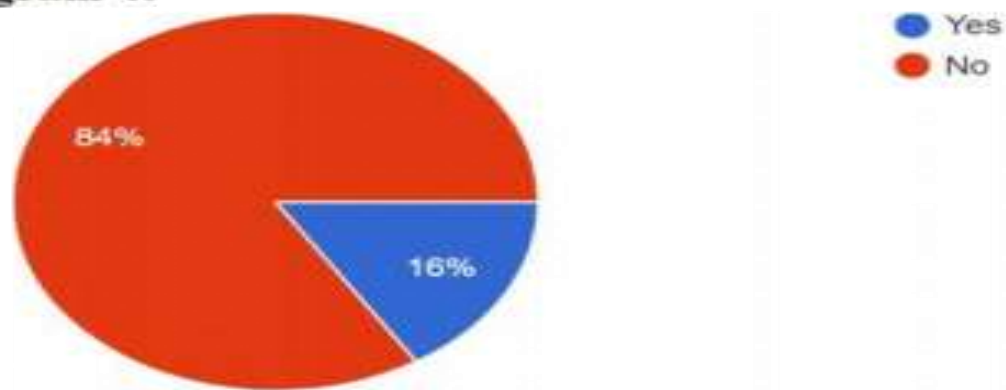


SOURCE- DATA COLLECTED THROUGH PRIMARY RESEARCH

According to the collected data, it shows that the main concern for the sample of consumers surveyed is the security aspect of such electronic payments. Lack of technical knowledge and poor internet connectivity are also major hurdles for India to go cashless.

Q. 4 Consumers opinion on the cost of transaction charged to them

Diagram 4:

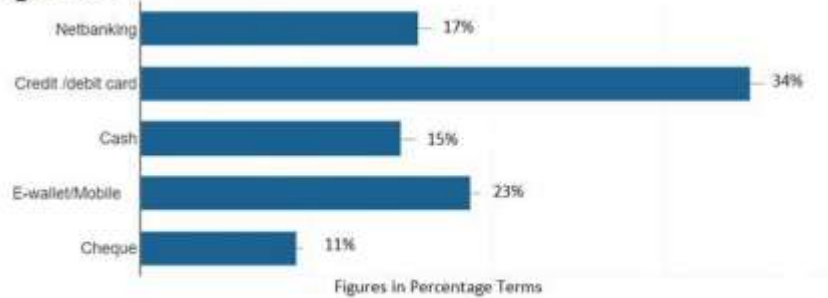


SOURCE- DATA COLLECTED THROUGH PRIMARY RESEARCH

The bank charges transaction fees and service fees such as SMS fees, card fees, internet banking fee, electronic payment access fee. Currently, citizens feel under pressure as the cost of cashless payments has not reduced the cost of cash. He feels that the cost of cashless and digital transactions will have to be brought down significantly from current levels. Until then, digital transaction costs must not rise above current levels.

Q. 5 Consumers preferred mode of payment post demonetization

Diagram 5:

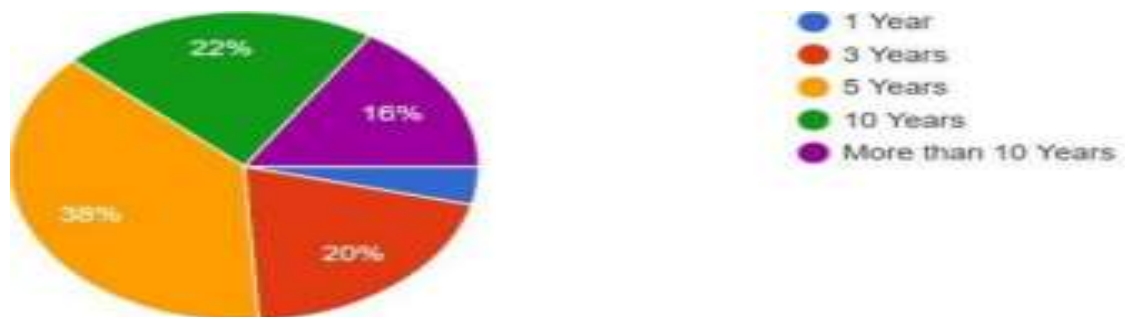


SOURCE- DATA COLLECTED THROUGH PRIMARY RESEARCH

When demonetization hit, people had to turn to other mode of payment other than cash, most people resorted to paying through bank cards. The use of electronic wallets has also increased. The fact that the country lacked paper currency for a considerable period while new notes were being printed has prompted many end consumers to adopt e-wallets such as Paytm, closing the loop between merchants and customers. While there was a hype in digital transactions after demonetization, when currency notes became regular, it was observed that majority switched back to the traditional mode of payment.

Q. 6 Probable time for India to become a cashless economy by the consumers

Diagram 6:



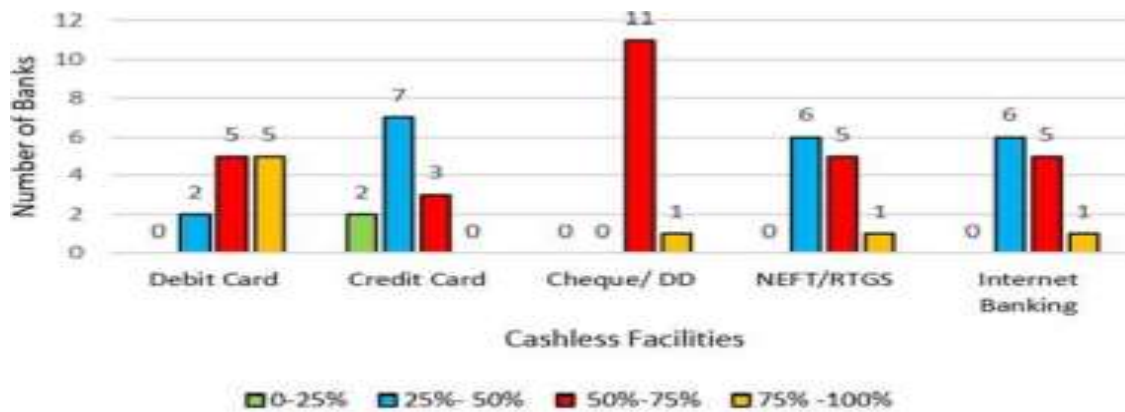
SOURCE- DATA COLLECTED THROUGH PRIMARY RESEARCH

For India to become cashless there are still many infrastructural and usage issues to overcome.

Only 24% respondents believe that India can go cashless within the next 3 years. While 60% of respondents believe that India may go cashless in the next 5-10 years. 16% respondents believe that India will take more than 10 years to become a cashless economy. The process of making digital payments in India is quite lengthy and time consuming. Digital payments are not the only standard like cash. In several cases, it can be said that digital payment platforms are not interoperable.

Q. 7 Responses from banking professionals Various banking cashless facilities used by the consumer

Diagram 7:



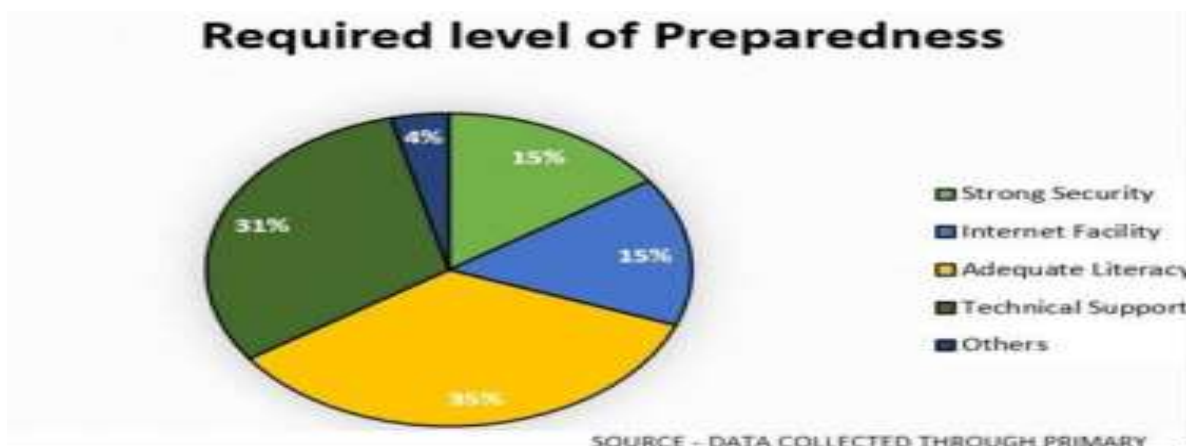
SOURCES- DATA COLLECTED THROUGH PRIMARY

It can be seen that debit cards, credit cards and cheque/DD are the most commonly used non-cash transactions. According to banking experts, there has been a significant increase in the use of internet banking and RTGS/NEFT after demonetisation.

Q. 8 Level of Preparedness required to become cashless economy.

Even as people adapt to newer digital payment methods, questions remain about the operational aspects of the platform. As a nation, we are clearly behind in being ready to deal with this major shift towards digital payments

Diagram 8:



SOURCE - DATA COLLECTED THROUGH PRIMARY

Adequate public literacy and effective technical support followed by strong 24x7 security and internet

facility were found to enhance the reliability of cashless movement in India.

Advantages of a cashless economy

- **Keep records of expenses** – It will be much easier for individuals to keep proper records of their expenses if cashless transaction methods are used. It will also help people to fill their tax returns correctly as they can easily find their transaction records in the cashless transaction system.
- **Convenience** – Ease of carrying out monetary transactions is the biggest advantage of a cashless economy. One will not have to carry cash, debit/credit cards. While traveling, the cashless transaction system is also a simple and secure payment option.
- **Reduce costs** – Through a cashless system, institutions become competent and can reduce their expenses as institutions do not require manual bookkeeping. The costs associated with manual labor and cash management are too high.
- **Purity** – Dirty and tobacco tainted currencies exist mainly in the Indian economy. Most cases where people unknowingly exchange germs and bacteria using currency. This could be avoided if people switched from cash to cashless system.
- **Low cost of production** – Paper notes and coins are actually very expensive to produce. When switching to a cashless system, the cost of producing paper currency is reduced.

Study restrictions:

Despite all efforts and dedication to this study, this research has certain limitations which are as follows:

- **Sample Size:** The sample size considered for this study is very small to represent a country like India.

Primary data collection method: Primary data obtained by questionnaire and personal interviews, there is a possibility of personal bias or for some other reason the respondent did not provide true data.

Findings: -

Consumers are not familiar with all available electronic means of payment. Even if they knew, the use of digital transactions increased only after demonetisation. They realize that the costs of switching to digital broadcasting are high and therefore expect incentives and

discounts for using such electronic payment systems. Consumers and bankers believe that security and technological know-how need to be streamlined for effective use of digital transactions.

According to a sample survey, it appears that India is not quite ready for a cashless economy. The preparedness needed to become a cashless economy is adequate literacy, strong security, internet facilities and effective technical support. Obstacles in India's way are illiteracy, public acceptance and poor infrastructure.

Interviews conducted with bank officials and managers show that India is not fully ready to become a cashless economy, with strong customer aversion to receiving funds through banking channels. A secure framework built for clients with a good user interface that should reduce security risks.

Bankers feel that awareness of digital payments should increase. A free service should be provided to assist the incompetent public in using electronic transactions. And there should be incentives like discounts/cashbacks to motivate digital transactions between consumers and merchants. Technical infrastructure should improve to facilitate digital transactions. Educating India's bottom to enhance smooth performance. Bankers also suggested that a tight firewall is necessary for customer security, which concerns customers the most, as we found in the survey we conducted.

Recommendations and Conclusion:

If we look at the overall scenario of establishing the cashless economy, it is beneficial in the present system. It can be said that cashless economy is the need of the hour. It has become not only important but necessary for the country to go cashless for the systematic development in the economy. Parity between cash and digital money is probably impossible to achieve, but there are means of getting closer to it by creating an incentive structure for that switch, and that involves making cash more expensive than cashless and better promoting the digital economy.

It will be better to say that India at this juncture must favor a cash less economy rather than a cashless economy. The constant march towards a less cash economy will lead to a cashless economy in the country in the near future.

India's transition from a cash to a cashless economy is the biggest challenge for the Indian

government. Most of the financial transactions are done in cash in the Indian economy. Government of India requires improvement of basic infrastructure to go cashless. Entering malls and complexes, online shopping malls promote customers to use digital transaction methods. The increasing use of cashless payment methods increases consumption activities and economic growth. The coming years of cashless economic system in India looks promising and successful as the support and response of the citizens to this Indian government initiative. The current state of the Indian economy has created an important turning point. If this condition is solved in the right way then there is a good possibility of Indian economy to move from cash to cashless economic system.

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