

## CASHLESS ECONOMY IN INDIA: BENEFITS & CHALLENGES AHEAD

**Tanya Sharma**

*Research Scholar, Department of Economics, L.N. Mithila University, Darbhanga, Bihar*

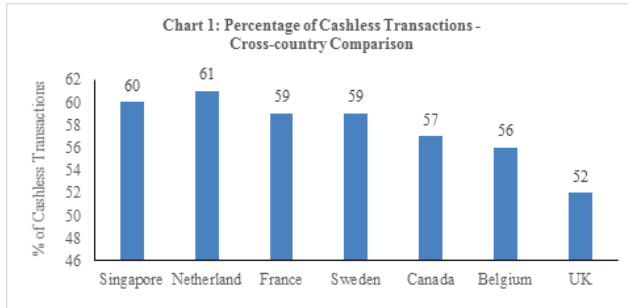
**Abstract:** A cashless economy is one in which all the transactions are done through electronic channels such as debit/credit cards, Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS), leading to a minimal circulation of physical currency. The survey for study was conducted in Patna town & data were collected with the help of structured questionnaire and analyzed using simple percentage method. Responses from the respondents show that cashless economy will help in curbing black money & counterfeit currency, combating the financing of terrorism, reducing cash related robbery and also helping in improving the economic growth by way of higher mobilization of resources through a greater degree of formalization of the economy. The major challenges in the way of realizing a cashless economy to a large extent, inter alia, include cyber fraud, high illiteracy, mind-set, lack of trust in electronic transactions, lack of awareness about benefits of digital banking, large cash-dependent informal economy and also unavailability of digital infrastructure in remote areas. Unless these structural issues are largely addressed, any effort to take the economy on a cashless path may have a limited success.

**Keywords:** cashless economy, corruption, black money, digital payments, demonetization, debit/credit cards.

### I. INTRODUCTION

Cashless economy is an economic system in which there is little or very low cash-based transactions, implying goods and services are bought and sold largely through electronic means such as debit/credit cards, electronic funds transfer (EFT), mobile banking, ATMs and internet banking. The Government is working at various levels to reduce the dependence on cash. The Prime Minister – Shri Narendra Modi unveiled two schemes – *Lucky Grahak Yojana* and *Digi Dhan Vyapaar Yojana* for customers and traders, respectively, to promote mobile banking and e-payments. To encourage and strengthen cashless economy, it is important to inculcate the habit of doing most transactions only through e-modes. The Government is encouraging cashless transactions with the multiple-objectives, viz., curbing black money & counterfeit currency, combating the financing of terrorism, formalization of the economy and garner higher

resources necessary for sustained economic growth and also meeting social development expenses. Currently, people have a number of options for e-transactions such as mobile banking, Ru-pay cards, Unified Payments Interface (UPI), Bhim App and Paytm. The Government has also introduced *Aadhar*-based payment system for people not having any e-cards or mobile phones. The RBI has also issued licenses to open small finance banks and payments banks which are expected to give a push to financial inclusion and also bring innovative banking solutions. Further, 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 in the medium to long-term. Below Chart 1 is showing the percentage of digital transactions in select countries. India is one of the fastest growing economies in the world, and has also stepped forward to take the benefits of digital modes of transactions.



Source: MasterCard Advisers.

## II. TYPES OF CASHLESS MODES AND PAYMENTS

### Mobile wallet

It is basically a virtual wallet available on mobile phone. A mobile wallet is a way to carry credit card or debit card information in a digital form on mobile device. A user can pay with his/her Smartphone, tablet, or smart watch instead of using your physical plastic card to make purchases. A user needs to make an account with a mobile wallet provider. After which money is added to the 'mobile wallet' account using a debit, credit, online transaction from bank account or via cash. An individual can store cash in his/her mobile to make online or off-line payments. Various service providers offer these wallets via mobile apps, which is to be downloaded on the phone. She/he can transfer the money into these wallets online by using credit/debit card or net banking. This means that there is no need to furnish the card details every time while paying a bill or make a purchase online via the wallet. It can be used to pay bills and make online purchases.

### Plastic money

It includes credit, debit and prepaid cards. The latter can be issued by banks or non-banks and it can be physical or virtual. These can be bought and recharged online via net banking and can be used to make online or point-of-sale (PoS) purchases. They can be given as gift cards. These cards are used for three primary purposes – for withdrawing money from ATMs, making online payments and swiping for purchases or payments at PoS terminals at merchant outlets like shops, restaurants, fuel pumps, etc.

### Net banking

It does not involve any wallet and is simply a method of online transfer of funds from one bank account to another bank account, credit card, or a third party. It can be used through a computer or mobile phone. A person has to log in to her/his bank account on the internet and transfer money via national electronic funds transfer (NEFT), real-time gross settlement (RTGS) or immediate payment service (IMPS), all of which come at a nominal transaction cost.

## III. BENEFITS OF CASHLESS ECONOMY

### Faster transactions

It has generally been observed that queuing at point of sale terminals and vending machines is greatly reduced; typically three times more people can be served using a cashless system than could have been if they were paying cash. In a cashless environment, employees may be used in a more productive way.

### Prompt settlement of transactions

E-banking speeds up the settlement of transactions both locally and internationally, where the bank stands as paying bank to the customers for settlement of transactions or as collecting bank for collection of payment on transactions.

### Convenience and Lower risk

The ease of conducting financial transactions is probably the biggest motivator to go digital. There will be no need to carry cash, plastic cards, or even queue up for ATM withdrawals. It is easy to block a credit card or mobile wallet remotely if it has been stolen.

### Taxation

There is lesser scope of hiding income and evading taxation because of lesser availability of hard cash at homes and also due to greater transparency. When there are more tax payers, it ultimately leads to a lesser rate of taxation for the people of the country.

### Transparency and accountability

Electronic transactions or plastic money always leaves a digital proof beneficial for both the taxpayer

(consumer) and the tax collector (government) and hence makes the system much more transparent and compliant.

#### **Reduced maintenance costs**

Digital transaction is a boon in terms of processing costs and waiting time. If implemented properly, it will increase the consumption and production, thereby improving the economic growth. Moreover, the logistics and supply chain of cash is adding a cost to the exchequer. The amount of money required in printing cash, its storage, transportation, distribution and detecting counterfeit currency is huge.

### **IV. CHALLENGES OF CASHLESS POLICY IN INDIA**

#### **Digital Literacy**

More than half of the nation still does not know how to use a computer. People in rural areas still don't know about smartphone. Besides, there is lack of internet facilities and without it a country cannot become cashless. There are still many rural and urban areas where the access of having 2G network is very difficult. Moreover, the cost of Internet access in India is very high as compared to developed countries.

#### **Few Banks in Villages**

The capital city New Delhi alone has about 20 HDFC bank branches. There are several villages and Tehsils that don't even have one. More the banks, more the cash deposits in accounts. Banks in villages should be helpful in teaching the residents the process, usage and benefits of plastic cards.

#### **Low Literacy Rate**

Low literacy rate hinders the accessibility of banking services. Citizens should not only know how to read and write but also possess basic ICT literacy to fully enjoy the benefits of e-payments.

#### **Language Barrier**

Internet is an English based platform. The details on the plastic card are also in English. The message received on mobile regarding transaction is also in English. Therefore, it is required to develop software

which may transmit messages or indicate procedures in local languages so that benefits can reach to a large section of population.

#### **Costly Swipe Machines**

Swipe machines are costly, and can be afforded by only large shopkeepers. It can't be expected from an auto driver or a small grocery seller to afford swipe card machines. Besides, many street vendors don't know how to use swipe machines.

### **V. LITERATURE REVIEW**

There are a number of literature available on cashless payment system, some of which are as follows:

- Das. A. Agrawal (2010). "cashless payments system in India- A roadmap" technical report, IIT, Bombay.
- Preeti Garg, Maanvi Panchal (2017). "study on introduction of cashless economy in India 2016: benefits and challenges" journal of business and management, vol-19, issue-4, issn-2278-487x.
- Daniel. D (2016). "a move toward a cashless society: a closer look at payment instruments economics." Review of network economics, pg.175-198.
- Srinath Haldhar (2000). "Indian economy-challenges beyond ninth plan" isbn-9788187036470.
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### **VI. OBJECTIVES OF PRESENT STUDY**

- To study the benefits of cashless economy, and
- To assess the preparedness for the

implementation of the cashless economy by Indian Government.

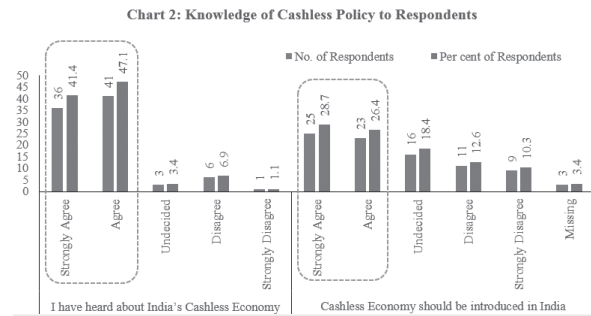
**VII. RESEARCH METHODOLOGY**

The study is conducted to obtain data on introduction of cashless economy in India. The study is conducted in Patna town. A sample size of 100 was selected using the convenience sampling procedure out of which 87 copies were retrieved in usable form. This represents a response rate of 87%. The sample in survey covers both literate and illiterate population, and questionnaire-based responses were collated on the subject. The responses from the respondents were collected and analyzed using the simple percentage method.

**VIII. DATA ANALYSIS & INTERPRETATION**

Below Chart 2 (also see Annex Table 1) shows that there is a high degree of awareness among the population about the cashless economy in India (about 88% of the respondents). The study considered academic community

which means, by all standards they are expected to be fairly aware of the happenings in the society. Few respondents, however, showed a strong dislike for the cashless economy. While around 55% of the respondents preferred that cashless economy should be introduced in India. The plausible reasons which might have resulted in low enthusiasm about its immediate introduction could be - lack of preparedness for the system, inadequate technology and more comfortable with cash-based system.



**Table 1: Knowledge/Well-acquainted with Cashless Policy**

Indicators	Response Category	Per cent of Respondents
Knowledge/well-acquainted with India's cashless economy	Strongly Agree	42
	Agree	44
	Undecided	4
	Disagree	8
	Strongly Disagree	2
	Total	100
Cashless Economy should be Introduced in India	Strongly Agree	27
	Agree	26
	Undecided	19
	Disagree	15
	Strongly Disagree	13
	Total	100.0

Source : Personal Investigation

Below Chart 3 (also see Annex Table 2) shows that around 80% of the respondents believe that the most

significant benefit of the cashless economy is reducing the risk of fake currency. In the same spirit, around 55%

of the respondents believe that the cashless economy will help to fight against money laundering as the money flowing through the system can easily be traced. Around 41% of the respondents believe that it may contribute towards reducing corruption. Another benefit is that it will stimulate economic growth as money hidden in other illegitimate areas will now be freed up. Around 56% of the respondents believe that efficient and modern payment system is positively correlated with the economic development and economic growth of the country.

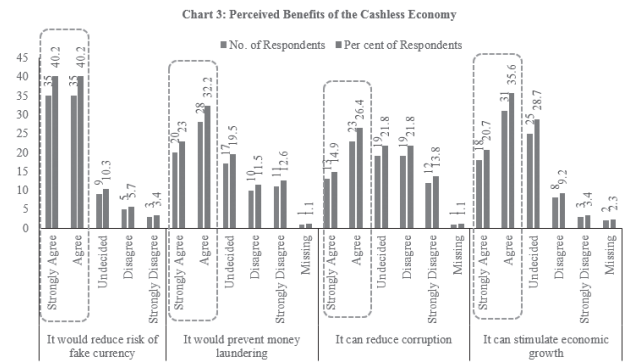


Table 2: Expected Benefits of the Cashless Economy

Indicators	Response Category	Per cent of Respondents
Reduce risk of fake currency	Strongly Agree	40
	Agree	38
	Undecided	11
	Disagree	7
	Strongly Disagree	4
	Total	100
Prevent money laundering	Strongly Agree	26
	Agree	30
	Undecided	20
	Disagree	12
	Strongly Disagree	12
	Total	100
Reduce corruption	Strongly Agree	16
	Agree	26
	Undecided	20
	Disagree	23
	Strongly Disagree	15
	Total	100
Stimulate economic growth	Strongly Agree	21
	Agree	37
	Undecided	27
	Disagree	10
	Strongly Disagree	5
	Total	100

Source : Personal Investigation

Below Chart 4 (also see Annex Table 3) shows that around 63% of the respondents believe that one of the major challenges for success of cashless economy is to contain increasing cybercrimes.

Around 57% of the respondents believe that literacy is important factor for incentivizing people to adopt digital payment system. Around 61% of the respondents believe that lack of transparency & efficiency in the payment system is also a factor for having a low level of digital transactions, as of now. Around 60% of the respondents believe that increasing instances of internet-

based fraudulent activities are discouraging people from adopting digital modes of transactions in a big way.

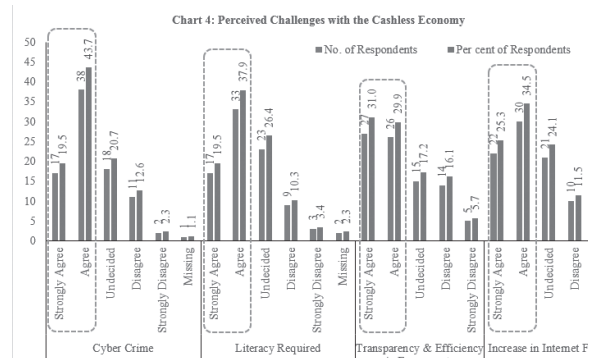


Table 3: Expected Challenges of the Cashless Economy

Indicators	Response Category	Per cent of Respondents
Challenges regarding cyber crime	Strongly Agree	21
	Agree	45
	Undecided	19
	Disagree	12
	Strongly Disagree	3
	Total	100
Challenges regarding literacy required	Strongly Agree	21
	Agree	39
	Undecided	21
	Disagree	13
	Strongly Disagree	6
	Total	100
Challenges regarding transparency & efficiency in E-payments	Strongly Agree	29
	Agree	31
	Undecided	16
	Disagree	18
	Strongly Disagree	6
	Total	100
Challenges regarding hike in Internet fraud	Strongly Agree	26
	Agree	36
	Undecided	20
	Disagree	13
	Strongly Disagree	5
	Total	100

Source : Personal Investigation

IX. CONCLUSION

The findings of above survey-based study clearly indicates that there are many benefits of cashless economy

such as faster transactions, greater convenience, lowering the risk of counterfeit currency, acting as an anti-money laundering system, containing corruption and also

helping in formalization of the economy - which in turn facilitates in higher revenues and higher economic growth. Despite many benefits of cashless economy, there are several challenges as well, and some of them are –how to contain cybercrimes and internet frauds, how to achieve higher penetration of ATMs/banking facilities cross country, how to considerably increase literacy rate, how to scale-up the availability of internet facilities, how to increase transparency and efficiency in digital modes of transactions to the level of people’s satisfaction. Unless these structural issues are largely addressed, any effort to take the economy on a cashless path may have a limited success. Knowing well these challenges, the Government should attempt to digitalize the country in a phased manner -either state-wise or district wise – if at all the Government is serious on the success of cashless economy, going forward.

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