



The Cashless Economy in India: Prospects and Challenges

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Abstract:

In India as it is in many developing countries, cash is the main mode of payment. This makes the country to be heavily cash based economy. However, the cost of cash to Indian financial system is high and increasing. It is in this regard that the Digital India program introduced by the Government of India with the objective of promoting the use of electronic payment channels instead of cash. This study seeks to point out the prospects and challenges of such program, in a developing economy like India. The study presented useful recommendations for policy makers. In conclusion, the study assumes that the move towards a cashless India brings with it many benefits but there is still the need to create more awareness to attract the many Indians into the cashless transactions.

Keywords: Digital India program, Cashless Economy and Cashless transactions.

1. Introduction:

To combat black money, corruption, counterfeit currency and terror financing, government took decision on November 8, 2016 to ban Rs 500 & 1000 notes followed by putting a cap on withdrawals from banks and ATMs, Prime Minister Narendra Modi floated the idea of a cashless society. A cultural-economic revolution in the making. But this surprise demonetization also pushed millions of new users onto the country's digital economic grid by virtual fiat. Cash might be more expensive for the government, because of tax evasion, corruption and the need to keep recirculation old, spoilt, currency, and enabling transfers, but digital is very expensive for citizens.

Most Indians lack the means to use cashless alternatives, irrespective of their desire to do so. India hopes to create a cleaner, more transparent economy via digitalization that will lead to an improved climate for foreign investment, boost economic growth. India is on the verge of massive digital revolution. Towards Digital Economy government initiated launch of 'two new schemes to promote BHIM app, including cash back scheme for merchants; Aadhaar Pay to be launched for people who don't have mobile phones. This will not only help millions of Indians overcome the hassles of dealing in cash to emerge as a truly cashless economy. The Union Cabinet in India approved a range of measures to support the cashless economy model which includes relaxed card and digital payments.

India, the second largest smart phone market in the world behind China, is still quite inactive when it comes to use of mobile money. The government plans to discourage cash payments beyond a certain point and increasingly promote digital payments by making such methods the most convenient and secure in the coming years. Moreover, digital payments will be instrumental in reducing tax avoidance. As the government plans to encourage payments and collections to cashless mode, the shift towards the cashless economy is expected to accelerate. Ancillary fees such as surcharge, service charge, convenience fee on cards and digital payments currently imposed by various government Departments and organisations will be withdrawn. This cashless economy goal might still face some obstacles, as the Center's fight against black money is also boosting cash usage in the



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economy, and lowering the comparative attractiveness of other assets like real estate or gold, according to a report just published by Ambit Capital Research. "A marked increase in preference for holding cash in its physical form has materialized owing to Modi's crackdown on black money. Also, as expected, there has been a notable decline in usage of formal banking channels as evinced by the decline in bank deposits as well as debit cards," writes the report. Quite evidently it points at a 53 year low in bank deposits growth rate, less than 10% in the financial year ended in March 2016. "Given that India's Gross Domestic Product (GDP) in calendar year 2016 is expected to be \$2.3 trillion, the size of India's black economy is about \$460 billion (over Rs 30 lakh crore), 20% of the total, which is larger than the stated GDP of emerging markets like Thailand and Argentina," Ambit Capital added. The Research Company is underlying that even if black money's volume is receding over the years, lending rates in the black economy have seen a rise to 34 per cent, from around 24 per cent a year earlier.

2. Meaning & Definition of Cashless Economy:

Cashless Economy can be defined as a situation in which the flow of cash within an economy is non-existent and all transactions must be through electronic channels such as direct debit, credit cards, debit cards, electronic clearing, and payment systems such as Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS) in India. In a cashless economy most of the transaction will be done by digital means like e banking, debit and credit cards, PoS (point of sales) machines, digital wallets etc. In simpler words no liquid money or paper currency will be used by the people in a given country. In a cashless economy the third party will be in possession of your money. He will allow you to transact that money whenever it is needed. If it is not needed then the third party can use that money. Third party can be a government or any other public or private sector bank.

3. Digital India Program:

E-governance initiatives in India took a broader dimension in the mid 1990s for wider sectoral applications with emphasis on citizen-centric services. The major ICT initiatives of the Government included, inter alia, some major projects such as railway computerization, land record computerization, etc. which focused mainly on the development of information systems. Later on, many states started ambitious individual e-governance projects aimed at providing electronic services to citizens. Though these e-governance projects were citizen-centric, they could make less than the desired impact due to their limited features. The isolated and less interactive systems revealed major gaps that were thwarting the successful adoption of e-governance along the entire spectrum of governance. They clearly pointed towards the need for a more comprehensive planning and implementation for the infrastructure required to be put in place, interoperability issues to be addressed, etc. to establish a more connected government.

3.1 e-Kranti: National e-Governance Plan 2.0:

The national level e-Governance programme called National e-Governance Plan was initiated in 2006. There were 31 Mission Mode Projects under National e-Governance Plan covering a wide range of domains, viz. agriculture, land records, health, education, passports, police, courts, municipalities, commercial taxes, treasuries etc. 24 Mission Mode Projects have been implemented and started delivering either full or partial range of envisaged services.

4. Package for Promotion of Digital and Cashless Economy by Central Government:

In the aftermath of the cancellation of the legal tender character of old Rs.500 and Rs.1,000 notes, there has been a surge in the digital transactions through use of credit/debit cards and mobile phone applications/e-wallets etc.



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To further accelerate this process, the Central Government has decided on a package of incentives and measures for promotion of digital and cashless economy in the country.

4.1 These incentives/measures are following:

1. The Central Government Petroleum PSUs shall give incentive by offering a discount at the rate of 0.75% of the sale price to consumers on purchase of petrol/diesel if payment is made through digital means. Nearly 4.5 crore customers buy petrol or diesel at such petrol pumps per day who can take benefit of this incentive scheme. It is estimated that petrol/diesel worth Rs.1800 crore is sold per day to the customers out of which nearly 20% was being paid through digital means. In the month of November 2016 it has increased to 40% and the cash transaction of Rs.360 crore per day have got shifted to cashless transaction methods. The incentive scheme has the potential of shifting at least 30% more customer to digital means which will further reduce the cash requirement of nearly Rs. 2 lakh crore per year at the petrol pumps.

2. To expand digital payment infrastructure in rural areas, the Central Government through NABARD will extend financial support to eligible banks for deployment of 2 POS devices each in 1 Lakh villages with population of less than 10,000. These POS machines are intended to be deployed at primary cooperative societies/milk societies/agricultural input dealers to facilitate agri-related transactions through digital means. This will benefit farmers of one lakh village covering a total population of nearly 75 crore who will have facility to transact cashlessly in their villages for their agri needs.

3. The Central Government through NABARD will also support Rural Regional Banks and Cooperative Banks to issue "Rupay Kisan Cards" to 4.32 crore Kisan Credit Card holders to enable them to make digital transactions at POS machines/Micro ATMs/ATMs.

4. Railway through its sub urban railway network shall provide incentive by way of discount upto 0.5% to customers for monthly or seasonal tickets from January 1, 2017, if payment is made through digital means. Nearly 80 lakh passengers use seasonal or monthly ticket on suburban railways, largely in cash, spending worth nearly Rs.2,000 crore per year. As more and more passengers will shift to digital means the cash requirement may get reduced by Rs.1,000 crore per year in near future.

5. All railway passengers buying online ticket shall be given free accidental insurance cover of upto Rs. 10 lakh. Nearly 14 lakh railway passengers are buying tickets everyday out of which 58% tickets are bought online through digital means. It is expected that another 20% passengers may shift to digital payment methods of buying railway tickets. Hence nearly 11 lakh passengers per day will be covered under the accidental insurance scheme.

6. For paid services e.g. catering, accommodation, retiring rooms etc. being offered by railways through its affiliated entities/corporations to the passengers, it will provide a discount of 5% for payment of these services through digital means. All the passengers travelling on railways availing these services may avail the benefit.

7. Public sector insurance companies will provide incentive, by way of discount or credit, upto 10% of the premium in general insurance policies and 8% in new life policies of Life Insurance Corporation sold through the customer portals, in case payment is made through digital means.

8. The Central Government Departments and Central Public Sector Undertakings will ensure that transactions fee/MDR charges associated with payment through digital means shall not be passed on to the consumers and all such expenses shall be borne by them.



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State Governments are being advised that the State Governments and its organizations should also consider to absorb the transaction fee/MDR charges related to digital payment to them and consumer should not be asked to bear it.

9. Public sector banks are advised that merchant should not be required to pay more than Rs. 100 per month as monthly rental for PoS terminals/Micro ATMs/mobile POS from the merchants to bring small merchant on board the digital payment eco system. Nearly 6.5 lakh machines by Public Sector Banks have been issued to merchants who will be benefitted by the lower rentals and promote digital transactions. With lower rentals, more merchants will install such machines and promote digital transactions.

10. No service tax will be charged on digital transaction charges/MDR for transactions upto Rs.2000 per transaction.

11. For the payment of toll at Toll Plazas on National Highways using RFID card/Fast Tags, a discount of 10% will be available to users in the year 2016-17.

5. Significance of the Study:

This paper discusses about the current scenario of Cashless India after demonization. It also strives to describe the focuses on the impact of devaluation on our economy, counterfeit currency and challenges towards cashless economy.

6. Review of literature:

Literature on the cashless policies is rather scarce, but recently the topic has gained more attention both by central banks and academic researchers. In this section, this study reviews some existing studies as follows; Electronic Payments as argued by (Cobb, 2005) have a significant number of economic benefits apart from their convenience and safety. These benefits when maximized can go a long way in contributing immensely to economic development of a nation

Automated electronic payments help deepen bank deposits thereby increasing funds available for commercial loans a driver of all of overall economic activity. According to (Cobb, 2005), efficient safe and convenient electronic payments carry with them a significant range of macro-economic benefits. The impact of introducing electronic payments is akin to using the gears on a bicycle. Add an efficient electronic payments system to an economy, and you kick it into a higher gear. Add better-controlled consumer and business credit, and you notch up economic velocity even further. (Cobb, 2005) In a similar narrative by Hord, 2005 electronic payment is very convenient for the consumer. In most cases, you only need to enter your account information such as your credit card number and shipping address once. The information is then stored in a database on the retailer's Web server. When you come back to the Web site, you just log in with your username and password. - -Completing a transaction is as simple as clicking your mouse:

All you have to do is confirm your purchase and you're done (Hord, 2005). Recent empirical studies such as Kriwoluzky and Stoltenberg (2010) attempted to estimate the cashless and monetary economy in US by employing Bayesian estimation techniques. The data set, which was split into two parts, ranged from first quarter 1964 to third quarter 2009, as done in Lubik and Schorheide (2004); Clarida et al (2000). Whilst treating GDP deflator, output per capita and real wages as observable, its findings suggest that interest rate policy was passive in the monetary but active in the cashless economy. According to Gali and Gambetti (2009), volatilities in output and inflation declined due to observed loss in the predictive power of money in a monetary economy. A similar conclusion was also reached by Stock and Watson (2002), Kim and Nelson (1999) for most developed economies.

7. Objectives

The objectives of study were based on:

1. To understand the advantages and disadvantages of Cashless India.
2. To suggest the future prospects of Cashless India.

8. Research Methodology:

The prepared paper is a descriptive study in nature. The study has been carried out based on the collection of the relevant secondary data. Secondary data collection was based on various sources such as published books, articles published in different journals & newspapers, periodicals, conference paper, working paper and websites, etc.

9. Challenges and prospects for cashless transaction economy:

India is an ardent effort to move towards a cashless transaction economy by minimizing the use of physical cash. The leading advantage of building a cashless economy is elimination of black money. Digitalization of transactions is the best way to move towards cashless economy. Such a cashless economy is realizable by promoting electronic money instruments, developing financial infrastructure and spreading digital transaction habits among people. RBI's Payment and Settlement Vision document 2018 gives objectives and guidelines towards cashless economy. Government's demonetisation drive is also supposed to benefit cashless economy. Still there are several constraints as well as prospects in the journey towards cashless economy.

9.1 Challenges:

Currency dominated economy: High level of cash circulation in India. Cash in circulation amounts to around 13% of India's GDP.

a) Transactions are mainly in cash: Nearly 95% of transactions takes place in cash. Large size of informal/unorganized sector entities and workers prefer cash based transactions. They don't have required digital and fintech literacy.

b) ATM use is mainly for cash withdrawals and not for settling online transactions: There are large numbers of ATM cards including around 21 crore Rupaya cards. But nearly 92% of ATM cards are used for cash withdrawals. Only low level of digital payment being used ATM cards. Multiple holding of cards in urban and semi-urban areas show low rural penetration.

c) Limited availability of Point of Sale terminals and poor transaction culture in POS: According to RBI, there are 1.44 million POS terminals installed by various banks across locations at the end of July 2016. But most of them remain in urban/ semi-urban areas.

d) Mobile internet penetration remains weak in rural India: For settling transactions digitally, internet connection is needed. Bu in India, there is poor connectivity in rural areas. In addition to this, a lower literacy level in poor and rural parts of the country, make it problematic to push the use of plastic money on a wider scale.

9.2 Prospects:

The JAM infrastructure can encourage digital transaction culture: The JAM infrastructure is spreading to reach each remote corner of the country as well as to every citizen. Almost 24 JDY Accounts, 124 Aadhar identity cards and nearly 90 crore mobile phones. Similarly, 33 million internet users are in India. This means that the JAM infrastructure can be used to promote cashless transactions.

a) A large number of government transfers (DBT) are made through JAM mode. This will help people to get digital transaction awareness.

b) The growth in volume and value of transactions using prepaid payment instruments (PPIs) issued by banks and authorised non-bank entities has also been significant.

c) NPCI promoted Aadhaar enabled Payment System, IMPS etc and they have registered big

turnover in transactions. Newly launched UPI (Unified Payment Interface) is expected to give a big boost to cashless transactions.

- d) Number of credit and debit cards are increased to 25.4 million and 691.1 million, respectively. The demonitisation drive may encourage people to learn and settle transaction using online.
- e) RTGS and NEFT volumes increased almost threefold between 2013 and 2016 reflecting greater adoption of the system by all segments of users.
- f) As more people start using RuPay debit cards and Aadhaar for digital payments, it will facilitate a less cash economy.
- g) With increasing mobile banking services, growth in e-commerce and use of mobile payment applications, the use of cash will decrease.

The RBI has made several efforts to promote digital settlements. Most important of them are launch of a regulatory set up for Prepaid Instruments (PPIs). Similarly, encouragement to mobile banking and internet banking will help to reduce the use of physical cash.

10. Conclusion:

The government needs to take the necessary steps and make some policy considerations when they are preparing for a cashless economy. The payment systems have to be protected from the cyber-attacks which are the major threat for cashless transactions. Also, the government should be able to serve the underbanked as well. Everyone from the society should have access to an electronic system that they can use for such transactions. Government should take measures to increase liquidity into the system so that people face less inconvenience. Government should also try to improve overall infrastructure so that more and more people can come into banking net and internet.

Society has also to play its part. They have to understand the importance of cashless economy and appreciate measures taken by the government. As a conclusion, it can be said that going cashless provides a lot more benefits than just convenience to people, businesses and the government in particular.

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