



INDIA'S PROGRESSIVE TRANSITION TOWARDS CASHLESS ECONOMY

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Abstract

India is a cash centric nation. High circulation of cash encourages the corruption and hawala transactions. To break this grip, Rs.500 and Rs1000 notes were demonetised last year. The new policy of demonetisation has shifted India towards the digital era. Cashless economy is a state where the flow of cash is trivial and most of the transactions are performed through electronic channels. Digital economy unearths black money and control circulation of fake currency. This paper will throw light on the basic concepts, modes of digital economy and the initiatives taken by government to create cashless environment. This paper will also examine the perspective of people regarding cashless economy. Data has been collected using both primary and secondary sources and analysed using simple research techniques.

Keywords: cashless economy, cashless transactions, digital society, digitalisation, electronic payments.

1. Introduction

Cashless India is a recently introduced phenomenon. The government has brought recent change in economic environment of India by demonetisation of Rs. 500 and Rs. 1000 notes from November 08, 2016. This can be considered as a bold move by NDA government towards the digitalisation. Reducing dependence of Indian economy on cash is required for a variety of reasons. Use of cash for making transactions is highest in India. Electronic payments account for only 5% out of approximately 1.34 billion population. In year 2012-13, India had 76.47 billion currency notes in circulation while U.S had only 34.5 billion. Despite of huge increase in usage of plastic cards and digital transactions, the cash to GDP ratio was 10.6% in March 2016. This was the highest Cash-GDP ratio among BRICS countries. In 2015-16 about Rs. 21000 crores were incurred on printing of currency notes. Cashless society is vital for replacing the bulk of cash in pockets with plastic money. Cashless transactions will help to unveil the non-registered transactions and it will be difficult for tax evaders to hide their taxable income. Digital India programme was launched by Government of India on 1 July 2015 with the motive to make India a cashless and digitally empowered society. The main aim of this programme is to make "Faceless, Paperless and Cashless" India. Recently RBI has presented a document – "Payment and Settlement System in India: Vision 2018" to motivate people to make electronic transactions and to make India a digital society. The first and foremost prerequisite for building a cashless economy is to register every single entity whether an individual or firm, under unique ID. This has already been done in India with the advent of UID scheme named as 'Aadhar'. About 40 Million accounts have been linked with Aadhar. The arrival of the smartphone and the development of 3G networks which transfer all the information quickly, plus the creation of new applications and services of banks and retailers are bringing cashless-ness nearer to us. (O.S. Akinola 2012). According to Ministry of Electronics and IT. The infrastructure of digital payments in India is expected to increase three times by end of 2017 with almost five million electronic point of sale (POS) machines. UPI transactions have experienced a huge increase from 03 million transactions in November 2016 to 67.8 million transactions until October 2017. (National Payment Corporation of India)

2. Literature Review

- Ananya Mitra, Sonali Rath and Jayant Kumar Nayak (2017) in their research paper, "Impact of Demonetisation on Cashless Transaction examined the status of Jan Dhan Yojna before, during and after demonetisation. Infrastructure facilities and POS terminals were increased during demonetisation but this growth lasted only for a few months. Demonetisation pushed Indian economy on the digital track but this change disappeared after new notes came into the market. To bring forward movement in electronic transactions, customers should be encouraged through incentives and discounts.
- Olalekan S. Akinola (2012) in his paper, "Cashless Society, Problems and Prospects, Data Mining Research Potentials" studied benefits and challenges associated with cashless economy. He also evaluated various cashless instruments. Technology and infrastructure are the vital facets of setting digital society. Successful implementation of paperless economy requires trust of all members of society.

- Piyush Thukral (2017) in his research paper, “Cash Lite India: Boon Or Bane?” concluded that there is a difference between cash lite and cashless economy. Cashless economy means complete ban of cash transactions whereas cash lite or less cash economy is related with reducing magnitude of paper transactions. He further suggested that replacing cash centric environment with paperless economy will be advantageous but need to overcome a lot of hurdles. The government’s carrot and stick theory towards digital payments has not proved fruitful as cash is an inevitable part of Indian economy. Dream of digital society cannot be achieved overnight. Government should make continuous efforts and develop strategies to make India less reliant on paper currency.
- Pranjali A. Shendge, Bhushan G. Shelar and S.S. Kapase (2017) in their research paper, “Impact and Importance of Cashless Transaction in India” opined that benefits of cashless transactions are driving India towards digital economy. They have studied impact of cashless society on economic growth, education and business processes.
- Rashmi Gujrati (2017) in her research paper “India’s march towards faceless, paperless, cashless economy” elucidated the types of cashless payments and has evaluated merits and challenges of cashless economy. This paper also stated the threats to digital economy and prerequisites for paperless society.
- Sunita Avula (2017) in her research paper, “The Cashless Economy in India: Prospects and Challenges” discussed the programs initiated by Indian government to bring economy on track of digitalisation and incentives offered to public to attract them towards digital transactions. Government needs to work on digital literacy, penetration of POS terminals and improved internet connectivity to make India a digital society.

3. Research Methodology

- **Data Collection Methods-** The data is collected from both primary sources (structured questionnaire) and secondary sources (journals, newspapers, magazines and websites).
- **Research Type-** Research is descriptive in nature.
- **Sampling-** A sample size of 100 units from SBS Nagar, Punjab is selected using convenience sampling method.
- **Research tools and techniques-** Likert scale and verbal frequency scale are used for data analysis.

4. Objectives of Study

- To study the concept of cashless economy.
- To review various channels of electronic transactions and to access their growth rate.
- To evaluate the steps taken by Indian government to bring economy on the track of digitalisation.
- To investigate the outlook of people towards digital economy.

5. Cashless Transactions In Indian Economy

Money is becoming much more of a concept from a physical entity. (O.S. Akinola 2012). Cashless Economy is defined as situation in which almost all transactions are performed through digital methods with minimal use of cash. Cashless economy does not mean complete absence of cash. In this economy transactions are mostly done through credit or debit cards, online fund transfers and using e-wallets. The new policy of demonetisation has inclined the use of digital methods by customers. It has reduced the risk of theft and loss of money leading to risk free transactions. Digital society paves the way for more employment opportunities and economic growth. In developed countries, residents mostly rely on e-currency but in India 98% of total economic transactions by volume are carried through hard cash. Table 1 shows the list of top cashless nations across the world.

TABLE 1 Top Cashless Countries

Singapore	61%
Netherlands	60%
France	59%
Sweden	59%
Canada	57%
Belgium	56%
United Kingdom	52%
USA	45%
Australia	35%
Germany	33%
South Korea	29%
Spain	16%
Brazil	15%
Japan	14%

China	10%
India	2%

Source: <http://m.businessstoday.in/story/here-are-the-top-cashless-countries-in-the-world/1/241430.html>

6. Modes of Cashless Payments

- **Cheque-** This is one of oldest method of cashless payment. Most people are familiar with this method. Cheques are issued of specific amount in the name of payee. The cheque gets deposited in the respective bank. The bank processes a payment through a clearing house. The transaction though cheque gets recorded and there is a proof of payment. According to Confederation of All India Traders (CAIT) Secretary Praveen Khandelwal, Indian government is going to abolish cheque books in near future.
- **Demand draft-** This is secure way of receiving payment as it is signed by the banker. There are no chances of default as it is a prepaid instrument.
- **Online Transfer- NEFT or RTGS-** Unlike cheque and DD this is the fastest method as it is done using internet facility. NEFT and RTGS is used for transfer funds between banks within a country. RTGS is one of the fastest interbank facility as beneficiary bank credits the recipient's account within 30 minutes of receiving the fund transfer message. On the other hand, NEFT works on a deferred settlement system.
- **E- wallets -**This method is used for fund transfer and online shopping but both customer and merchant require a smartphone with internet connectivity. PayPal, TransferWise, Skrill and Payza are most commonly used E-wallets. E-wallets are linked with credit or debit card using E-wallet id.
- **Mobile wallet –**This is a very convenient way of making small payments. Mobile wallets do not require debit or credit card linking. Money is loaded in wallet using Immediate Payment Service (IMPS). Most popular mobile wallets are MobiKwik, PayUmoney, Oxigen, etc.
- **Credit or Debit card-** These are used for making purchases but availability of swipe machines (POS) is limited. The usage of plastic cards is increasing in India. The amount of debit cards is growing at a faster rate than credit cards (RBR's Global Payment Cards Data and Forecasts to 2021 study). Figure 1 presents the number of transactions through debit and credit card in India over a period of one year.

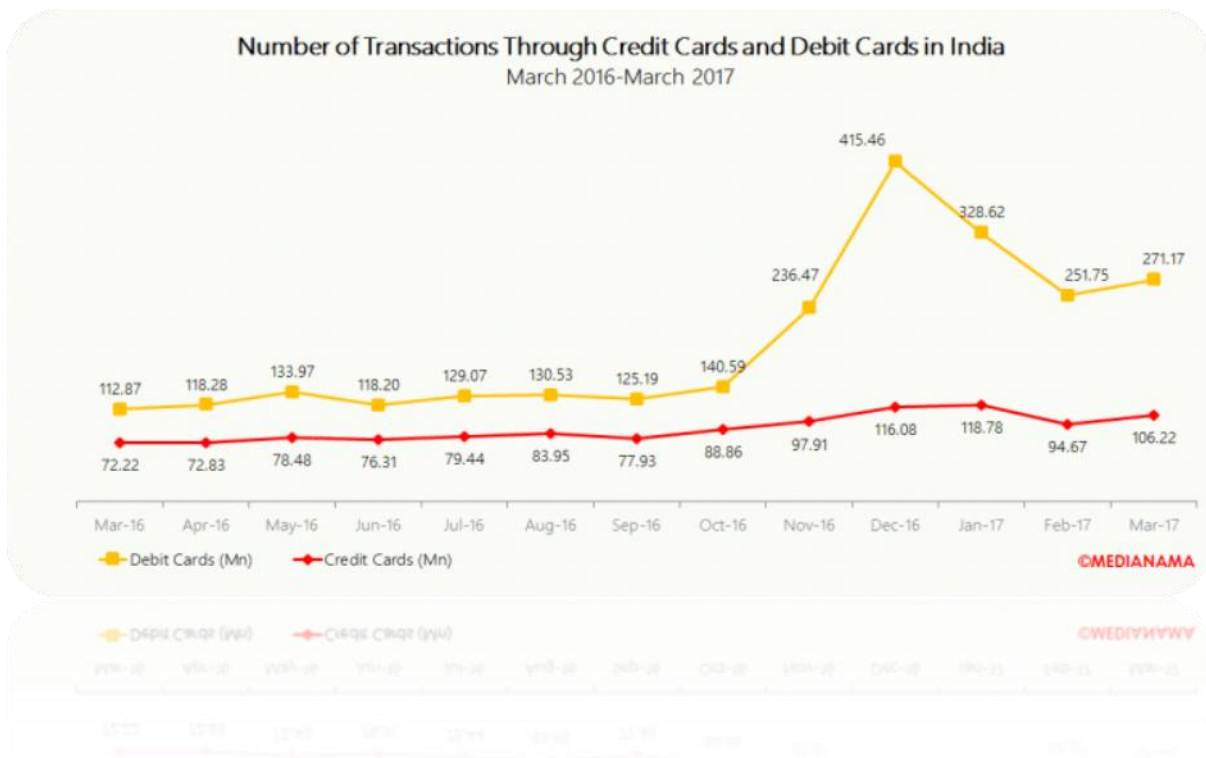


FIGURE 1 (Number of Card Transactions in India)

source: <https://www.medianama.com/2017/05/223-india-29-8m-credit-cards-854-9m-debit-cards-march-2017/>

The number of transactions by debit card was recorded higher over a period of one year. Credit card transactions grew by 47.10% while growth rate of debit card transactions was recorded at 140.24%. Before demonetisation, both credit and debit card utilisation have shown steady growth. Post- Demonetisation brought a drastic rise in debit card usage during the month of December 2016. Card usage was maximum in months of November and December but there was a sharp decline in months of January and February 2017.

- UPI Apps- UPI (Unified Payments Interface) provides safety to user as transactions are made using virtual payment address. The examples of few UPI Apps are BHIM, SBI Pay, ICICI Pocket, Union Bank UPI App, PNB UPI and many more. But these apps need an android phone and stable internet connection.
- Aadhar Enabled Payment System (AEPS)- Before using this facility, bank account must be linked with Aadhar card. It uses fingerprint scanner and smartphone for carrying transaction. Unlike cards and USSD, AEPS does not have any charges on transactions.
- Unstructured Supplementary Service Data (USSD)- This is a mobile banking service that do not require internet connection and smartphone. As this is a universal method, it does not demand specific mobile phone. User need to dial *99# to avail this service. This option is provided by almost all banks. This service is for rural population who don't have access to internet facility and it is available in 11 regional languages.

Table 2 depicts the non- cash transactions for two financial years and percentage increase in cashless transactions.

TABLE 2 (Digital Transactions in year 2015-16 and 2016-17)

	2015-16 (volume in millions)	2016-17 (volume in millions)	Percentage increase
RTGS	98.34	107.86	9.68%
Cheque Truncation System(CTS)	958.39	1111.86	16.01%
EFT/NEFT	1252.88	1622.10	29.47%
Cards	10038.67	12055.87	20.09%
M-wallet	603.98	1629.98	169.87%
Mobile banking	389.49	976.85	150.80%

Source: RBI Bulletin

Mobile banking and M-wallet operations have multiplied by three times in year 2016-17. The growth rate of RTGS is minimum as compared with other digital methods. NEFT and cards have shown moderate growth in year 2016-17 but they are more popular among customers.

7. Initiatives Taken By Government To Steer Indian Economy Towards Digitalisation

- The Central Government Petroleum PSUs offer discount at the rate of 0.75% of the sale price to customers on purchase of petrol or diesel for making digital payment.
- Government announced to extend financial support through NABARD to eligible banks for deployment of two POS machines each in one lakh villages at primary cooperative societies, milk societies or agricultural input dealers.
- RRBs have been directed by NABARD to issue 'Rupay Kisan Cards' to Kisan Credit Card holders to enable them to make paperless transactions.
- Railways provide up to 0.50% discount for monthly or seasonal tickets to customers.
- Free accidental insurance cover up to Rs.10 lakh to passengers buying online tickets.
- Discount of 5% on digital payment of paid services offered by railways.
- Incentive by public sector insurance companies in the form of discount or credit up to 10% of the general insurance premium and 8% of life insurance premium if payment is made through cashless method.
- Government have instructed public sector banks not to charge more than Rs.100 per month as monthly rent for POS terminals from traders.
- Service tax is waived on digital transactions up to Rs.2000.
- Under section 44AD of the Income Tax Act 1961, lower tax rate is charged on digital turnover up to Rs. 2 crores for small businesses.
- Transactions up to Rs.1000 made through IMPS, USSD and UPI systems are free from charges.
- Oil Marketing Companies also give discount of 5% to customers on every online LPG refill booking.

8. Study on Views of People Regarding Cashless Economy

The study is conducted in Shaheed Bhagat Singh Nagar district of Punjab to collect views of people towards the introduction of cashless economy. A sample size of 100 was taken using convenience sampling. The sample includes literate as well as illiterate people from urban and rural areas. Out of 100, 92 copies were retrieved in complete form. Data has been collected through structured questionnaires. Responses are presented using verbal frequency scale and Likert scale and analysed with the help of simple percentage method.

Table 3 exhibits frequency in making digital transactions.

TABLE 3 (How frequently people perform digital transactions?)

Very often	Often	Sometimes	Rarely	Never	Total
6	11	28	38	9	92
6.52%	11.96%	30.44%	41.30%	9.78%	100%

According to Table 3, only 18.48% of total respondents make electronic transactions repeatedly while 30.44% of people occasionally use digital methods of payment. Out of total sample, 41.30% individuals reported that they seldom perform cashless transactions and 9.78% of total representatives have never used cashless instruments for making payment.

The prime reasons for unsteady use of e-payments are abundance of cash supply in economy, less speed of internet in semi-urban and rural areas and lack of POS machines at trader's end.

Table 4 presents viewpoint of people about cashless economy.

TABLE 4 (Perspective towards Cashless Economy)

Statements		Frequency	Percentage
<i>1) Cashless economy is necessary for growth of nation and should be introduced in India.</i>	Strongly agree	24	26.09
	Agree	41	44.57
	Neutral	15	16.30
	Disagree	9	9.78
	Strongly disagree	3	3.26
<i>2) It will assist in curbing generation of black money.</i>	Strongly agree	20	21.74
	Agree	46	50
	Neutral	9	9.78
	Disagree	13	14.13
	Strongly disagree	4	4.35
<i>3) It will help to reduce corruption.</i>	Strongly agree	18	19.57
	Agree	48	52.17
	Neutral	17	18.48
	Disagree	7	7.61
	Strongly disagree	2	2.17
<i>4) Digital transactions bring better transparency and accountability.</i>	Strongly agree	19	20.65
	Agree	51	55.43
	Neutral	8	8.70
	Disagree	11	11.96
	Strongly disagree	3	3.26
<i>5) It will eliminate the risks associated with carrying and transporting huge amount of cash</i>	Strongly agree	23	25
	Agree	57	61.96
	Neutral	4	4.35
	Disagree	7	7.61
	Strongly disagree	1	1.08
<i>6) Major obstacle in setting up cashless economy is lack of infrastructure.</i>	Strongly agree	16	17.39
	Agree	49	53.26
	Neutral	8	8.69
	Disagree	14	15.22
	Strongly disagree	5	5.44
<i>7) There is digital illiteracy of e-payment and cashless transactions.</i>	Strongly agree	28	30.43
	Agree	56	60.87
	Neutral	5	5.44
	Disagree	2	2.17
	Strongly disagree	1	1.09
<i>8) There should be universal financial inclusion.</i>	Strongly agree	21	22.83
	Agree	51	55.43
	Neutral	10	10.87
	Disagree	7	7.61
	Strongly disagree	3	3.26

Table 4 shows attitude of respondents towards cashless society. According to above table, 70.65% people agree that cashless economy is constructive for nation's growth. Only few people contradict with this statement. Out of total sample, 71.74% individuals have given their consent that digital economy with help to control circulation of black money and will wind down the problem of corruption in nation. 76.08% public believe that electronic payments are transparent and accountable. As per 70.65% units of sample, poor infrastructure is preeminent roadblock to cashless economy. 91.30% people stated that there is digital blindness regarding e-payments and 78.26% respondents comply with the statement that there should be financial inclusion.

9. Conclusion

A large informal group which is major constituent of India's population still runs on cash. Growth in government incentives has yet not proved fruitful and cash is still king in the market. To incline digital payments, better internet connectivity and security against hackers should be provided to people. Along with this, uneducated and people living in remote areas should be trained to use digital means. Setting up more POS terminal can also give positive push to electronic payments. Digital transactions suddenly spiked after demonetisation but within few months they started shrinking due to supply of new notes in the market. According to above study, most of the respondents have shown positive response towards adoption of cashless economy but due to lack of proper infrastructure and access to internet, only few people are using electronic channels regularly. Cashless environment should be accepted enthusiastically after considering risks associated with digital payments. It will take more than one generation to completely adopt cashless economy. Hurrying nation into cashless economy can create adverse effects. Therefore, government needs to gain trust and faith of people in financial system of India.

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