

## A Study of Cashless Economy in India- Present Scenario and their Challenges

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### Abstract

A Cashless society describes an economic state, Where financial transactions are not conducted with Money in the form of physical bank notes or coins, but rather through the transfer of digital information between the transaction parties. The banking sector is in a transitional mode towards a vibrant global market & sophisticated information technology. Due to this changing present scenario, banks are paying more attention to expanding their activities from just lending and borrowing to other ends like, insurance merchant banking, leasing electronic banking etc. The United Kingdom, Sweden, Australia, Netherlands, and the US also have high rates of consumer payments (80% and over) made via non-cash mode. Sweden is the most cashless economy in the world followed by France, Canada, UK, Sweden, Germany, USA, South Korea. The Swedish bank is an example of the richness of technology. The information technology is being used in Swedish bank. Now India has moved its steps towards cashless Economy. In India it is known as 'Vimudri' or 'Nagadira' in Hindi. Modi Government Announced 8 Nov 2016- A New trend of transition came into existence; known as modern cashless Economy. In the points for digital transactions per million people significantly low for India. By Year 2020, nearly \$ 500 billion worth of transactions in India will happen digitally, using online wallets and other digital payment systems, 10 times the present level. In India cash-based consumer payments to fall to 40% to 45% by 2025. Biometric security system is available with the cashless digital transaction option. All cashless transactions are visible/traceable for government. It is easy for government to monitor income tax & it will strengthen the nation's economy. Digital economy will help in increased access to use this digital facility. Meaningful transition will depend on a number of things such as awareness, technology development & government intervention.

**Key Words:** Meaning & Definition of cashless economy, current Scenario, current position of cashless in India.

### Introduction

Cashless economy is an economic system in which transactions are not done predominantly in exchange for actual cash. It does not refer to an outright absence of cash transactions in the economic setting but one in which the amount of cash-based transactions are kept to the barest minimum. A cashless economy or an e-payment system is a situation where there is little or very low cash in a given society, meaning there by, transactions will be made by electronic channels like debit cards, electronic Funds transfer, mobile payments, multi-functional ATM's and internet banking. It is the economy that runs mostly on plastic or digital money & thus with minimal cash or money in paper form. In other words, it refers to the wide spread application of Computer technology in the financial system. It is designed to breakdown the traditional barriers hindering financial inclusion of millions of Indians and bring low cost, secure and convenient financial services to urban, semi-urban and rural areas across the country. Nevertheless, cashless economy is

defined as an 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 balance even when they earn rate of return. It is not the complete absence of cash but it is a payment system that is secure, convenient, and affordable. It is an economic system in which goods and services are bought and paid for through electronic media.

For centuries, coins, notes and cheques were the only options to make purchases and to transfer money between people and organizations. The second half of the last century witnessed the introductions of plastic cards, Electronic Fund Transfer, Internet banking and pre-paid payment cards all aimed at making payment more efficient. With advances in information technology a number of new payment solutions have emerged, including premium SMS payment M-PESA, phone pay, Google pay, paytm, UPI, e-Wallet, Bit coin etc. Many of these innovations have advantages in terms of costs, security, and convenience. They also pose a number of challenges and risks related to, at least technical standards, data security, legal issues and consumer behavior. Overall, these innovations are changing people's perception and experience of money and paying. Not only new payment solutions attract a lot of attention in media and press, but they also trigger a debate regarding the cashless economy. Throughout history there has been much speculation about a cashless economy. Worldwide there is tremendous interest among policy makers. Academicians and commercial enterprises to explore the possibility of moving towards a cashless economy. However, cash still continues to remain the predominant form of transaction. With a cashless economy in the near future there are many benefits, as well as many challenges and need to be explored.

## **SIGNIFICANCE OF THE STUDY**

In this paper discusses about the present scenario of cashless Economy in India. After creating situation of Demonetization It also strives to describe the focuses on the impact of devaluation on our economy, counterfeited currency and challenges towards cashless economy.

## **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 and Newspapers, periodicals, conference papers, working papers & websites etc.

### **Objectives of the study**

1. To study the present scenario of cashless economy in India.
2. To study the suggest their challenges of cashless in India.
3. To study the advantages if India become a cashless economy
4. To study the disadvantages or problems faced by the India to become cashless Economy.

### **Meaning & Deflation 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 transition 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 govt or any other public or private sector bank.

### **Present scenario of cashless Economy**

1. India's black money has been estimated by the world bank in 2010 to be worth about one fifth at the GDP. In a country where 90% transactions are carried out on cash basis it was a revolution-any move to transform from cash to cashless transactions.
2. To bring the economy on track again, government is promoting cashless economy because scrapping of cash needs an alternative to cash.
3. The cash centric informal sector's like agricultures real estate etc. have been affected by demonetization. However the experts say that its short term scenario and this move will give positive long term consequences.
4. Under this scheme, 250 million bank accounts have been opened in two years. As per RBI Reports bank branches increased by 5% per year but ATM's debit cards & card swiping machines have doubled in four years and online transactions have grown 20 times in six years to 2016.
5. All these data shows a gradual shift towards cashless economy. demonetization has sped up this transition.

Money is often described as having three functions :

- i) A unit of account Function.
- ii) a Medium of exchange function
- iii) A store of value function. In a cashless economy, the third is not Cashless operative & probably, neither is the second. economic setting but one in which the amount at cash based transactions are kept to the barest minimum. It is an economic system in which transactions are not done predominantly in exchange for actual cash (Daniel. D.G., R.W. Swartz, and A. L. Farmer, (2004). cashless Economy in which the flow of cash within an economy is non-existent and all transactions have to be through electronic channels such as direct debit, credit & debit cards. Electronic clearing and payment systems such as Immediate payment services (IMPS) National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS) in India.

The cash-based economy is characterized by the psychology to physically hold & touch cash (a culture informed by ignorance, illiteracy and lack of security consciousness and appreciation of the merit of digital payment).

Thereby, the currency in circulation in India at end of March 2016 was 90270 million having value of Rs.16.4 lakh Corer (Source : RBI). At Present, notes in India are issued in the denomination of Rs. 05, Rs. 10, Rs. 20, Rs. 50, Rs. 100, Rs. 500 & Rs. 2000. These notes are called bank notes as they are issued by the Reserve Bank of India. The Indian Economy continues to be issue by the use of cash; less than 5% of all payments happen electronically. Cash accounted for upwards of 95% of all transactions, 90 % of vendors didn't have card readers or the means of accepting electronic payments, 85 % of workers were paid in cash, and almost half of the population didn't even have bank accounts. Even India is the only country in the world where this option is available and "Cash on delivery" was the preferred choice of 70 % of all online shoppers. Present scenario at India, ratio of cash to gross domestic product is 11 % in GDP, which is one of the highest in the world. It was 9.47 % in China or 4 % in South Korea or 3% in Brazil. India's gross cost of cash is 2 % of GDP, with the consumer bearing the highest burden. At 1.7% of GDP, India incurs a much higher cost of cash compared with most developed economies like Sweden 0.5% Australia 0.8% Denmark 1% & Hungary 1.1 %.

**The Governments plan of Action for Cashless Economy**

1. No Transaction above 3 lakh will be permitted in cash.
2. Banks to introduce additional 10 lakh point of sale terminals by march 2017.
3. A mission will be set up with a target of over 2,500 crore digital transactions for 2017-18 through UPI, USSD, Andhra pay, IMPs & debit card.
4. Andhra pay, a merchant version of Aadhar-enabled payment system will be launched shortly for those without debit cards, mobile phones or e- wallets.

**Disadvantage**

1. According's to the world bank, India is home to 21 percent of the world's unbanked & about two-thirds of south Asia's.
2. Rural people are not aware or educated enough to use these digital facilities.
3. Security & safety concerns& malware infection for digital cashless transactions. Around 2.6 million customers holding credit debit cards at visa. Master card & 6 lakh cards of Repay were asked to change their security features.
4. India lacks in restructure for a cashless economy.
5. India having only 2.3 lack ATMs and 14 Lakh Pos terminals is too low. Countries like Brazil, Australia, France& the UK have POS terminals there or four times that of India.

**Advantage**

1. People need not to carry ATM card with them.
2. Biometric security system is available with the cashless or digital transaction option.
3. Cashless or digital transaction option reduces the chances to forfeit currency.
4. Digital electronic cashless transactions allow people view history and manages their budget.
5. All Cashless transactions are visible/traceable for government.

**Future Challenges of cashless Economy in India**

Smooth, Simple and secure payment processes will help to bring about behavioral changes and faster adoption of digital payments and banking among un- banked segments. When new players enter the market, each with a slightly different take on the market and with differing business models, the increased competition will help the environment & offer more options for consumers to choose from. A larger pie with more players is definitely good for the changing dynamics of the payment's industry, which is still nascent in India.

1. Provide fiscal incentives for digital payment.
2. Develop digital payment ecosystem independently and develop a repository to track payment history of customers.
3. Establish an acceptance development Fund to increase acceptance of digital payments in under-penetrated categories.
4. Crafting approach to inculcate financial literacy programmes at schools level & in higher education. And as part of public service education.
5. Introducing certification standards & constructing innovative model for business correspondence.

**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 under banked as well. Every-one 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 and current Indian present scenario. So that more & more people can come into banking net & internet. Society has also to play its part. They have to understand the importance of cashless economy and appreciate measures taken by the government.

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