

## Digital Payments Driving India Towards Cashless Economy- A Critical Review

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### Abstract:

In order to transform India into a digitally empowered society and knowledge economy, the Government of India launched Digital India programme in 2015. The programme focuses on three main vision areas: digital infrastructure as a core utility to every citizen, governance and services on demand, and digital empowerment of citizens. Through the programme, the government wants to ensure the availability of high-speed Internet, provide mobile phones and bank accounts to every citizen, ensure availability of services in real-time from online and mobile platforms, make financial transactions electronic and cashless, and ensure digital literacy and availability of digital resources across the country. On this background the paper deals with critical review on Digital payments driving India towards cashless economy.

**Keywords: Digital India, Cashless economy, Mobile platforms.**

### Introduction:

Global Business is driven by technology and innovation. In many cases, innovation is changing the face of business and how it is ruined. Innovations have also changed the way payment systems are viewed. The latest technology has transformed traditional cash-based payment systems into a more efficient and effective cashless payment system. Digital payment transactions are more profitable than traditional systems due to digital payment features such as ease of use, convenience, security, and speed. Digital payments are considered the most favored payment method around the world, including India. With the Government's "Digital India" initiative, the spread of the Internet, the spread of smart phones, and the adoption of technology, digital payments have proliferated in India since 2014. India achieved a compound annual growth rate (CAGR) of 58.9% in volume and a CAGR of 28.4% in value for digital payments in 2019. This growth rate in India is also found to be quite remarkable in the global payment market.

In the last few years India has taken some eventful steps for the whole nation aimed at the greater good of the economy, such as demonetization and Aadhaar registration. The basis for this was always working towards a ‘cashless society’ and we zoomed ahead towards that goal during a global health catastrophe – Covid-19. The pandemic which brought about social distancing, lockdowns and a hyper-dependency on digital media and digital payments. Since the late 20th century, India has been slowly but steadily moving towards cashless economy with ATMS, MICR, debit cards, credit cards. Today, you have mobile wallets, recharge vouchers, UPI, NFC payments, QR codes etc. Come to think of it, India has performed really well on the digital adoption front.

### **Growth of Digital payments in India:**

In the past two years, forced by the pandemic, the country has seen a superfast adoption of digital technologies. With the rise of the fintech sector, the acceptance and normalisation of digital payment methods have become secure, precise, with stronger government guidelines and seamless for the common man. Digital awareness is increasing and with a financial boost to the sector and digitisation, financial inclusion is one of the highest priorities for the government. Financial inclusion is giving hopes to millions of under-banked and unbanked people all over the country and showing them the path towards an aspirational life, of a better life.

### **Highlights of Cashless Economy in India**

- ❖ Post Demonetization, the Centre is making a big push for online and card-based transactions in the country to achieve its target of becoming a largely cashless economy.
- ❖ The rapid growth of e-payment startups in the country.
- ❖ Launch of Unified Payments Interface (UPI) to facilitate cashless transactions.
- ❖ The Covid-19 pandemic fueled a massive shift towards digital transactions in India aligning with the prime minister’s vision of a Digital India. In fact, according to the National Payments Corporation of India (NPCI) data, payments on UPI in June 2020 hit an all-time high of 1.34 billion in terms of volume with transactions worth nearly Rs 2.62 lakh crore.

### **Cashless Economy – Types of Cashless Modes and Payments**

There are various cashless payment modes and these are mentioned below:

**Mobile wallet:** It is basically a virtual wallet available on your mobile phone. You can store cash in your mobile to make online or offline payments. Various service providers offer these wallets via mobile apps, which is to be downloaded on the phone. You can transfer the money into these wallets online using

credit/debit card or Net banking. This means that every time you pay a bill or make a purchase online via the wallet, you won't have to furnish your card details. You can use these 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, even given as gift cards. 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. You can do it through a computer or mobile phone. Log in to your 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.

The cashless economy in India is being promoted through various platforms and applications which provide easy methods of funds transfer and payments:

### **Cashless Economy – Prepaid Payment Instrument:**

The RBI classifies every mode of cashless fund transfer using cards or mobile phones as '**prepaid payment instrument**'. They can be issued as smart cards, magnetic stripe cards, Net accounts, Net wallets, mobile accounts, mobile wallets or paper vouchers. They are classified into four types:

1. **Open Wallets:** These allow you to buy goods and services, withdraw cash at ATMs or banks and transfer funds. These services can only be jointly launched in association with a bank. Apart from the usual merchant payments, it also allows you to send money to any mobile number linked with a bank account. M-Pesa by Vodafone is an example.
2. **Semi-Open Wallets:** You cannot withdraw cash or get it back from these wallets. In this case, a customer has to spend what he loads. For example, Airtel Money/Ola Money is a semi-open wallet, which allows you to transact with merchants having a contract with Airtel/Ola.
3. **Closed Wallets:** This is quite popular with e-commerce companies; wherein a certain amount of money is locked with the merchant in case of a cancellation or return of the product or gift cards. Flipkart and Book My Show wallets are an example.

4. **Semi-Closed Wallets:** These wallets do not permit cash withdrawals or redemption, but it allows you to buy goods and services from listed vendors and perform financial services at listed locations. Paytm is an example.

### Challenges in transitioning to a Cashless society

- **Acceptance infrastructure and digital inclusion:** Lack of adequate infrastructure is a major hurdle in setting up a cashless economy. Inefficient banking systems, poor digital infrastructure, poor internet connectivity, lack of robust digital payment interface and poor penetration of PoS terminals are some of the issues that need to be overcome. Increasing Smartphone penetration, boosting internet connectivity and building a secure, seamless payments infrastructure is a prerequisite to transition into a cashless economy.
- **Financial Inclusion** – For a cashless economy to take off the primary precondition that should exist is that there should be universal financial inclusion. Every individual must have access to banking facilities and should hold a bank account with debit/credit card and online banking facilities.
- **Digital and Financial Literacy** – Ensuring financial and digital inclusion alone are not sufficient to transition to a cashless economy. The citizens should also be made aware of the financial and digital instruments available and how to transact using them.
- **Cyber Security** – Digital infrastructure is highly vulnerable to cyber-attacks, cyber frauds, phishing and identity theft. Off late cyber-attacks have become more sophisticated and organised and poses a clear and present danger. Hence establishing secure and resilient payment interfaces is a prerequisite for going cashless. This includes enhanced defences against attacks, data protection, addressing privacy concerns, robust surveillance to pre-empt attacks and institutionalised cyber security architecture.
- **Changing habits and attitude** – Indian economy functions primarily on cash due to lack of penetration of e-payment modes, digital illiteracy of e-payment and cashless transaction methods and thirdly habit of handling cash as a convenience. In this scenario, the ideal thing to do is to make people adopt e-payments in an incremental fashion and spread awareness to initiate behavioral change in habits and attitude.
- **Urban-Rural Divide** – While urban centres mostly enjoy high-speed internet connectivity, semi-urban and rural areas are deprived of a stable net connection. Therefore, even though India has more than 200 million smart phones, it is still some time away for rural India to seamlessly transact through

mobile phones. Even with regard to the presence of ATM's, PoS terminals and bank branches there exists a significant urban-rural divide and bridging this gap is a must to enable a cashless economy.

### Conclusion:

With newer technologies like block chain, some fintech companies are able to create a framework that fosters financial empowerment by orientating the underserved population about managing their finances and giving them full control of their life. With strategic partnerships with the government and rural banks, the fintech sector can help achieve the national goal of increased financial inclusion for most parts of the country. The government is prioritising security, regulations and restrictions to make digital payments seamless, safe, and user-friendly. The country is doing well and we as a nation are well ahead of the curve compared to many nations in the world. The future of digital payments is not just bright, but one of the reasons why the world's eyes are upon us.

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