



## STUDY OF CASHLESS ECONOMY OF INDIA

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### **Abstract**

In modern era of digitalization Indian government is trying to develop cash less economy at the place of existing physical currency custom of India. The biggest challenge for Going for cash less economy is to maintain balance between ease of financial transactions and curbing malpractices. To deals with problems of black money, Hawala, money laundering Indian Government has embarked on the cashless economy. Digital money started a new era in Indian economy. The purpose of this paper is to find out the challenges which the stakeholders would face in implementing the cashless economy and the possible measures to overcome them. This paper focuses on the understanding of the cashless system in India and will draw attention to the significant hindrances faced by the cashless economy and electronic payment systems. The exploratory study was conducted to calculate the cost of transaction borne by the customers and banks on the way towards a cashless society.

**Keywords:** cashless economy, digital payments, digitalization

### **Introduction**

Cashless economy refers to all the financial transactions in economy will take place through Plastic money, online payment, payment gateways or any other electronic form. The primary object behind cashless economy is to cover present non-registered transactions. The Indian government trying to achieve objective of cash less economy through various means, which includes Credit and Debit cards, Unified Payment Interface (UPI), Unstructured Supplementary Service Data (USSD), Aadhaar Enabled Payment System (AEPS), Mobile Wallets, Banks Pre-Paid Cards, Point of Sale, Internet Banking, Mobile Banking, and Micro ATM's etc. Even though India adopted digital payment system in its economy, still it has a long way to go. Countries like Denmark, Sweden, Canada, South Korea, etc have very much high percentage of cashless transactions—as about 85-90%. Norway has stopped issuing cheques. For this countries task of cash economy is easy than India because these countries are much smaller than India, large educated population, higher penetration of organized retail and higher awareness about digital transactions than India.



### Prerequisites for a Cashless Society

To convert age-old dependence on physical cash transactions into cashless society is a just a dream without proper preparation in this regard. There are few prerequisites like technical infrastructure, awareness, social acceptance and comprehensive legal measures in place for a successful transition to cashless economy.

### Objectives:

- To understand the concept of Cashless Transaction in economy.
- To measure and explain the impact and importance of Cashless Transaction System.
- To find difficulties and challenges faced by Indian population for adoption of cashless economy.
- Suggestions to face challenges to improve cashless transaction system in India economy.

### Research Methodology:

For this study qualitative and quantitative both research methods are used. Data for study was collected from primary as well secondary sources.

### Primary Data

Primary data for research is collected through structured questionnaire and direct personal interviews.

- **Population size**

This Study is related to all the Banks and the Consumers across Mumbai.

- **Sample Size**

**Customers** - 50 different customers residing in city of Mumbai.

**Banks** - In this research sample researcher have considered 12 banks of Mumbai The reason for selecting Mumbai region as my sample is that Mumbai is the financial city of the country. Bank managers and officers responses had been reported through interviews.

Following are the banks under study:

Sr.No	Private	Public	Co-Operative Bank
1	ICICI Bank	Union Bank of India	Abhuydaya Co-operative Bank
2	RBL Bank	Bank of Maharashtra	Apna Sahakari Bank
3	HDFC Bank	Bank of Baroda	Greater Co-operative Bank
4	HSBC Bank	Vijaya Bank	Bharat Co-operative Bank



- **Secondary Data**

Secondary data was gathered from various sources viz: books, reports, journals, published papers.

**Limitations of the study:**

Despite of all efforts and dedication towards this study there are some limitations to this research which are as follows:

- **Sample size:** The sample size considered for this study is very small to represent country like India.
- **Method of primary data collection:** Primary data obtained through questionnaire and personal interviews, there is possibility of personal bias or due to any other reason respondent not provided true data .

**Review of Literature:**

Meaning of Cashless economy is not the complete absence of cash in economy, it is a system in which goods and services are bought and paid for through electronic media.

1) According to Alvares, Clifford (2009) in their reports —The problem regarding fake currency in India. It is said that the country's battle against fake currency is not getting easier and many fakes go undetected. It is also stated that counterfeiters hitherto had restricted printing facilities which made it easier to discover fakes.

2) Jain, P.M (2006) in the article —An Analysis of Growth Pattern of Cashless Transaction System. Available funds can be optimally used if fullest advantage of technology, quick payments and remittances is ensured. This will largely benefit banks, financial institutions, business houses and common citizen of India. He also pointed out the need for e-payments and modes of e-payments and communication networks.

3) Srinivas, N. (2006) in his study —An analysis of the defaults in credit card payments, has tried to analyze the socio-economic profile of the defaulters of credit cards, to identify the set of factors which contributed to such defaults and suggest relevant measures to minimize the default cases. Analysis of reasons indicated that economic hardship is the major reason identified by majority of the sample units follows by rigid payment structure and loss of job/business. The main suggestion is that the banks concerned should redesign the payment structure of credit card defaulters in a flexible and affordable installment.

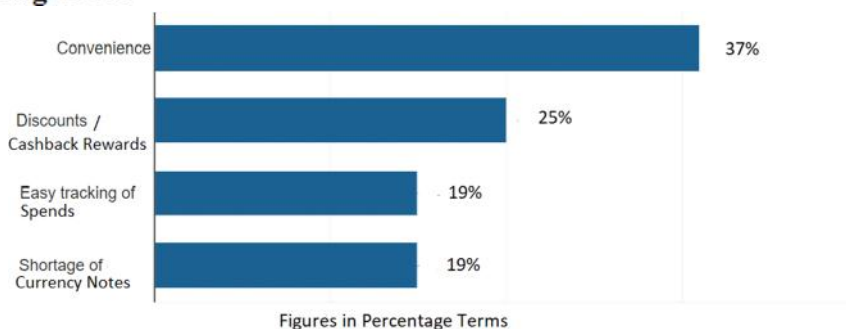


## Data Analysis and Interpretation:

- **Responses from consumers**
- **Reasons for consumers to adopt cashless transactions:**

Not only financial inclusion is a reason to shift from a cash-based system to electronic payments, but there are other reasons as well.

**Diagram 1:**



Figures in Percentage Terms

SOURCE- DATA COLLECTED THROUGH PRIMARY RESEARCH

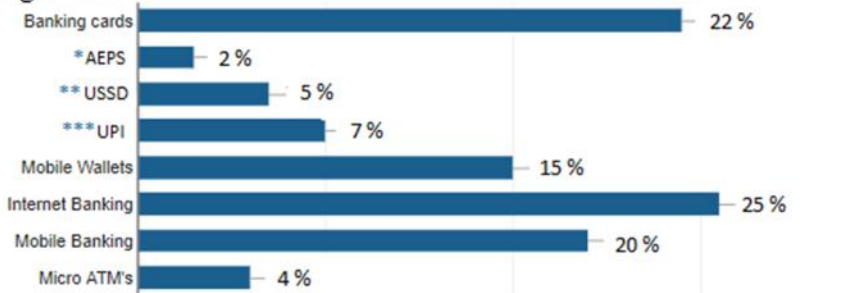
The above Diagram 1 indicates that cashless payment system is not adopted by customers only because it's convenient for them. There are other reasons like discounts/cashback rewards attracts customers to adopt cashless payment system. As per the study, most of the digital payments preferred for food/beverages, travelling, entertainment, utility bills, shopping, and government services is via card, followed by cash, cheque, bank transfers and mobile payments.

- **Familiarity of electronic payment systems among consumers:**

The Digital India program is a flagship program of Indian Government with a vision to transform India into a digitally empowered society and knowledge economy. As part of promoting cashless transactions and converting India into less-cash society, various options of digital payments are available.



**Diagram 2:**



Figures in Percentage Terms

SOURCE- DATA COLLECTED THROUGH PRIMARY RESEARCH

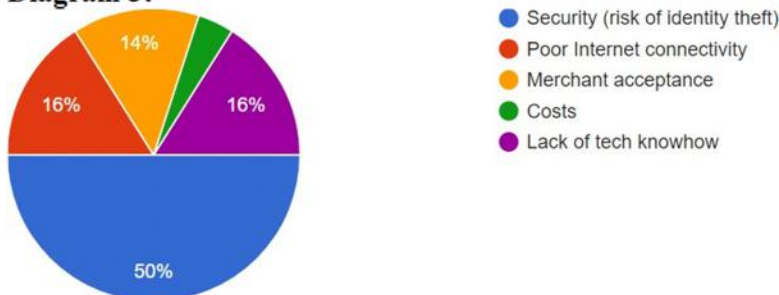
[\*Aadhaar Enabled Payment System \*\*Unstructured Supplementary Service Data \*\*\*Unified Payment Interface]

With the advent of Aadhaar System in the Indian Economy much concerns have been raised for the AEPS. The above Diagram 2 is a clear revelation that AEPS being an emerging electronic payments system is rather relatively unfamiliar mode.

• **Consumers’ biggest concern around cashless payments**

Consumers would move from being a cash ridden society to a cashless society, but due to the security issue, poor internet connectivity, merchant acceptance, cost of transactions and lack of tech knowhow they still resist cashless transactions.

**Diagram 3:**



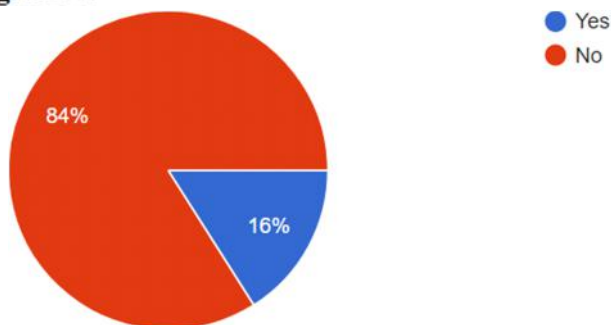
SOURCE- DATA COLLECTED THROUGH PRIMARY RESEARCH



According to the data collected it shows that major concern among sample of consumers under study to be the security aspect of such electronic payments. Also, the lack of technical knowledge and poor internet connectivity adds to be major hindrances for India to become cashless.

- **Consumers opinion on the cost of transaction charged to them**

**Diagram 4:**

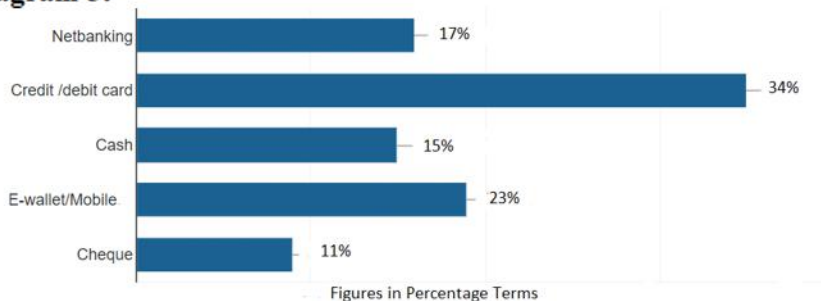


SOURCE- DATA COLLECTED THROUGH PRIMARY RESEARCH

Bank charges transaction fees and service charges like SMS service charges, card fees, Internet banking fee, access fee on electronic payments. Currently, citizens feel squeezed because the cost of cashless has not reduced the cost of cash. They feel the cost of cashless and digital transactions will have to be significantly brought down from the current levels. Until then, the cost of digital transactions must not be increased beyond the current levels.

- **Consumers preferred mode of payment post demonetization**

**Diagram 5:**



Figures in Percentage Terms

SOURCE- DATA COLLECTED THROUGH PRIMARY RESEARCH

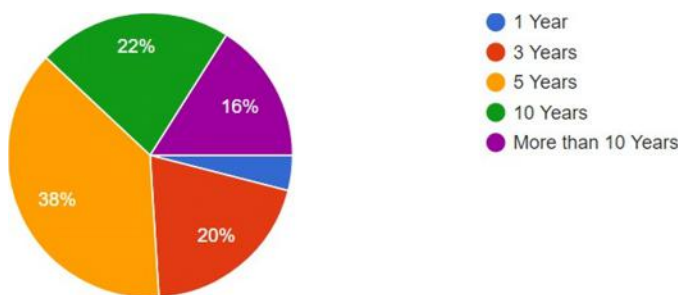


When Demonetization struck, people had to turn to mode of payment other than cash, most of the people resorted to pay through banking cards. Also, the use of E-wallets increased. The fact that the country was starved of paper currency for a significant period while the new notes were being printed it pushed many end-consumers into adopting e-wallets like PayTM to transact, closing the merchant-customer loop. Even if there was a hype in the digital transactions post demonetization, when the circulation of notes became regular it was observed that, the majority switched back to traditional mode of payment.

- **Probable time for India to become a cashless economy by the consumers**

**Diagram 6:**

For India to become cashless there are still many infrastructural and usage issues to overcome.



SOURCE- DATA COLLECTED THROUGH PRIMARY RESEARCH

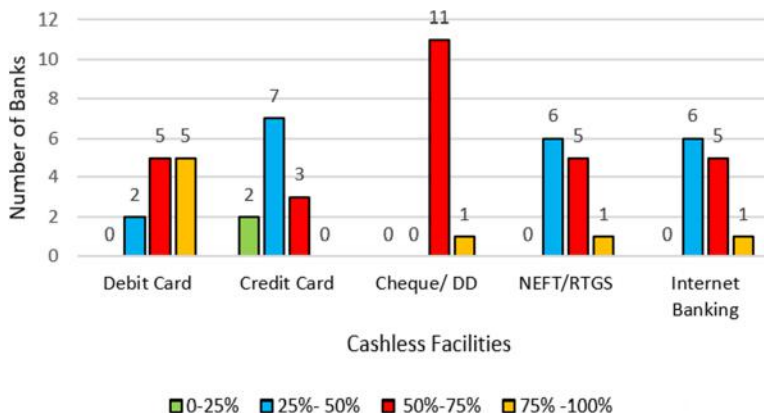
Only 24% of respondents feel that India can become cashless in next 3 years. Whereas, 60% of respondents feel that India can become cashless in next 5- 10 years. 16% of respondents feel that India will take more than 10 years to become a cashless economy. The process of making digital payments in India is relatively tedious and time consuming. Digital payments aren't a single standard like cash money. In few cases it can be said that digital payment platforms are not interoperable.

#### **Responses from banking professionals**



- Various banking cashless facilities used by the consumers

Diagram 7:



SOURCES- DATA COLLECTED THROUGH PRIMARY

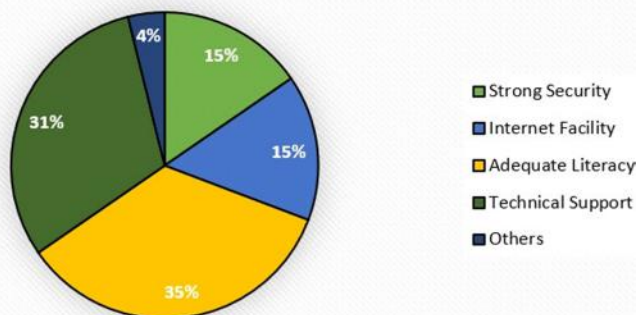
It can be seen that debit cards, credit cards and cheque/DD are most commonly used cashless transactions. According to banking professionals, there has been a significant increment in the usage of internet banking and RTGS/ NEFT post demonetisation.

- Level of Preparedness required to become cashless economy

Even as people adapt to newer digital modes of payment, questions remain over the platform's operational aspects. As a nation, we are clearly behind on the preparedness to deal with this large scale move towards digital payments

Diagram 8:

### Required level of Preparedness



SOURCE - DATA COLLECTED THROUGH PRIMARY





It is observed that adequate literacy of the public and an efficient technical support, followed by strong 24x7 security and internet facility for increasing the reliability on the cashless India movement.

- **Hurdles affront of Cashless India**

It was found that, public acceptance stays supreme for effective change in the overall structure of payments and to reduce illiteracy and improve the infrastructure required to become a digital economy.

### **Findings**

Consumers are not familiar with all the electronic payment facilities available. Even if they knew, the usage of digital transactions boosted only after demonetization. They realize that the cost of going digital is high and hence expects incentives and discounts for using such electronic payment systems. Consumers and bankers believe security and tech knowhow to be made efficient for effective usage of digital transactions

According to the sample survey, it is revealed that India is not completely ready for cashless economy. The preparedness required to become a cashless economy are adequate literacy, strong security, internet facility and effective technical support. The hurdles in the path of India are illiteracy, public acceptance and poor infrastructure.

The interviews conducted with bank officials and managers reveal that, India is not fully ready to become a cashless economy, strong aversion from customer to accept fund through banking channels. A secured structure to be made for clients with good user interface which should reduce security risks.

The bankers feel that, awareness for digital payments should be increased. Free service should be provided to help incompetent public for usage of the electronic transactions. And there should be incentives like discounts/cashbacks which will motivate digital transactions among consumers and businessman. Technical infrastructure should be improved to facilitate digital transactions. Educating the lower section of India to increase the smooth performance. Also, the bankers suggested that tight firewall is required for the safety of customers, which concerns customers the most as we found the by the survey conducted.

### **Recommendations and Conclusion:**

If we look at the overall scenario of establishing the cashless economy, it is beneficial in the present system. It can be said that cashless economy is the need of the hour. It has become not only important but necessary for the country to go cashless for the systematic development in the economy. Parity between cash and digital money is probably impossible to achieve, but there are means of getting closer to it by creating an incentive structure for that switch, and that involves



making cash more expensive than cashless, and better enforcement of digital economy.

It will be better to say that India at this point of time has to go for less cash economy rather than cashless economy. The continuous march towards less cash economy will lead to cashless economy in the country in near future.

### Suggestions

- Equitable improvement of infrastructure for bringing in effective changes and thus decreasing the disparity in the development of rural and urban regions.
- Mere launching of schemes and campaigns regarding cashless doesn't seem to be worthwhile. To make these schemes more impactful, some sort of marketing tools like Bank Mitra or exhibition and camps in rural areas should be set-up to make these schemes fruitful.
- Online transactions should be made as cheap as possible, eliminating all sort of extra charges so that more and more people switch from cash based to cashless economy.
- Adequate security mechanisms should be put in place to safeguard the interest of consumers against dubious and fraudulent practices of fraudsters.
- Giving an indirect tax rebate for using cashless methods of payment, which brings parity between cash and cashless. Even online, merchants can be incentivised to charge less for digital payments, and more for cash on delivery.

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