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## TRANSFORMING INDIA INTO A CASHLESS ECONOMY: A DREAM OR REALITY

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### ABSTRACT:

During the ongoing decade of this century our government is trying to convert our economy into a cashless economy with the intention of converting India into a well-balanced economy by reducing black money, corruption and inequalities. Cashless economy is an economy where most of the transactions take place without using the physical cash or hard cash. It is the economy where transactions take place with the help of fund transfer through internet banking or by using debit cards, credit cards, e-wallets or other on line mechanism of payments. Definitely there are lots of merits of cashless transaction. But, in a country like ours, it is a controversial question whether India can be covered into a cashless economy at its present socio-economic status in a hurry or within a very short span of time. Keeping these debatable issues in mind this paper attempted to analyse the pros and cons of the controversial issue in the light of prevailing situations. By considering the merits and demerits of the issues, it concluded that converting India fully into cash less economy in a hurry or within a very short span of time is a dream and it may proceed with a long term vision. Finally, the paper ended with some suggestions by the author from his personal viewpoint.



**KEYWORDS:** Indian economy, Cashless economy, Cashless transactions, Digital payments.

### INTRODUCTION:

The demonetization of the government introduced in the country during November, 2016 is a clear message towards the cashless transaction with the intention of converting India into a well-balanced economy by reducing black money, corruption and inequalities. Cashless economy is expected to be free from the curse of corruption, have lesser amount of black money in circulation. Cashless system brings down

the cost associated with printing, storing and transporting of cash. The introduction of cashless economy with the help of information technology these days is fully supported by the government of India as it not only reduces the threat of theft and loss of money but also facilitates the risk free transactions among different parties. If we see the same from the Indian perspective it can be concluded that card and online transactions can lead to better

spending avenues than the cash transactions. This initiative has not only helped the fast transactions but at the same time it has saved lot of time and money in the country. This saving in times, if utilised for other productive purposes, may lead to the increase in the production and consumption and hence definitely the GDP of the country. It may also pave the ways for the removal of inequalities, creation of employment opportunities,

ensuring high living standards as well as higher rate of growth in the economy. Cashless transactions are going to make the things different with increase in income of the state. It will also stop maximum amount of black marketing in the country and consequently increase in the receipts of taxes in the government treasury. If we see the global trend in the market it is clear that all over the world people have started taking interest in cashless transactions. Academicians, politicians, administrators and above all the economists all over the world has strongly advocated about going cashless from the cash rich economy. The present paper is an attempt to understanding the pros and cons of the cashless economy in the light of prevailing situations of our country.

This paper has been divided into five sections. In the first section attempt has been taken to highlight the steps taken by the government of India towards the implementation of the cashless economy. In the next section, impact of demonetization as a step towards cashless has been discussed. In the third section, various pros and cons of the controversial issue have been discussed in the light of prevailing situations. In the fourth section, probable impact of the several efforts of the governments on the overall economic growth and development has been studied. In the fourth section, this paper has highlighted challenges faced by the government in establishing cashless economy. Finally, in the last section the paper ended with some suggestions by the author from his personal viewpoint.

### INITIATIVE TAKEN BY THE GOVT. TO MAKE INDIA A CASHLESS ECONOMY:

Digital India programme is a flagship programme of the Government of India with a vision to transform India into a digitally empowered society and knowledge economy. "Faceless, Paperless, Cashless" is one of professed roles of Digital India. The ambitious mission of government of India to drive India towards a cashless economy was boosted with the announcement of demonetization on November 8, 2016.

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, 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. The government of India is working dedicatedly to push India towards a cashless economy with major initiatives such as demonetization, DBT or Direct Benefit Transfers, BHIM and many more. DBT or Direct Benefit Transfers is an attempt to change the mechanism of transferring subsidies launched by Government of India on 1 January 2013. This program aims to **transfer** subsidies **directly** to the people through their bank accounts. The intent is to restructure the economy and curtail corruption. On the other hand, **BHIM** or Bharat Interface for Money is a mobile app developed by National Payments Corporation of India (NPCI), based on the Unified Payment Interface (UPI). The government approved for a proposal, under which there would be no charge for BHIM, UPI, and debit card transactions up to Rs.2000.

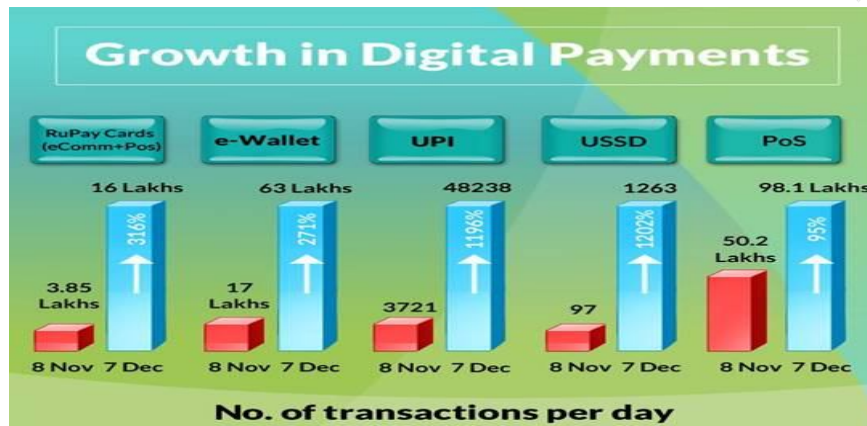
NITI Aayog announces the launch of the schemes Lucky Grahak Yojana and the **Digi-dhan Vyapar Yojana** to give cash awards to consumers and merchants who utilize digital payment instruments for personal consumption expenditures. The scheme specially focuses on bringing the poor, lower middle class and small businesses into the digital payment fold. It has been decided that National Payment Corporation of India (NPCI) shall be the implementing agency for this scheme. NPCI is a not a profit making company. It has been entrusted with a responsibility of guiding and transforming India into a cashless society.

The primary aim of these schemes is to incentivize digital transactions so that electronic payments are adopted by all sections of the society, especially the poor and the middle class. It has been designed keeping in mind all sections of the society and their usage patterns. People in village and rural areas can participate in this scheme through **Aadhaar Enabled Payment System or AEPS**. ADHAAR Enabled Payment System provides basic financial services (cash deposit, balance enquiry, cash withdrawal and remittance) at low cost access devices (called Micro-ATMs) maintained at Business correspondents in an inter-operable way. Apart from the above, government has also introduced

**Rupay Card, Unified Payment Interface (UPI), USSD \*99# Banking** for getting banking services from ordinary phone etc. to expedite the digital India programme.

**DEMONITIZATION AS A STEP TOWARDS CASHLESS ECONOMY:**

Demonetization is a process by which a series of coin or note are withdrawn from use as legal tender. The government's key rationale for demonetisation was to control the circulation of black money and to make the economy a cashless economy. Following figure highlights the growth of digital payments during pre and post demonetisation within a gap of 30 days as depicted by Press Information Bureau, Government of India NITI Aayog.



Source: Press Information Bureau, Government of India NITI Aayog

From the above figure it is seen that number of transaction in each and every case about has increased significantly. The increase in percentage of various modes of payments varies from 95 to 1202 has been presented in the following table (Table No-1).

**TABLE NO-1**  
**TABLE SHOWING CHANGES IN THE NUMBER OF TRANSACTIONS DURING PRE AND POST—**  
**DEMONETIZATION PERIOD**

Mode of payments	Pre-demonetization No. of transactions (in lakh)	Post-demonetization No. of transactions (in lakh)	Changes (In lakh)	Changes (In %)
RuPay Card	3.85	16	12.15	316
E-Wallet	17	63	46	271
UPI	3721	48238	44517	1196
USSD	97	1263	1166	1202
PoS	50.2	98.1	47.9	95

Source: Compiled from the above data

From the above table it is seen that most significant increase is shown in case of USSD mode followed by UPI as shown in Table-1. All other modes of payment have also increased significantly.

**ADVANTAGES OF CASHLESS ECONOMY:**

The Government of India is making concentrated efforts to reduce the use of cash in the economy by introducing the digital payment in all spheres of financial transactions. The following are main advantages of introducing digital payment in an economy.

**Minimization in the cost of printing and storage of money:** In the cash based economy where maximum people work on the cash transaction, government has to print more and more currency notes. Printing notes it is a costly affair. It was estimated that, for 2009–2010, RBI incurred an annual cost of INR 2800 Crores for printing currency notes (**Das and Agarwal 2010**). Other than printing cost of the currency notes there are many other expenses that the government has to do. Another important aspect is the maintenance in the form of storage of notes, transportation of the notes to the distant places, security of the notes, and devices for the detection of counterfeit notes. It is reported that all this maintenance cost the government about 5% of the GDP of India.

**Convenient:** The ease of conducting financial transactions is main motivator to go to the arena of digital payment system. With the introduction of digital payments, one can avoid queue in bank or ATMs, transact twenty four hours seven days and save time. In digital payment system, with the introduction of e-KYC, it is no longer necessary to know the customer physically as the payments model has overcome the limitations relating to physical presence.

**Risk Reduction:** The main advantage of cashless economy is that an individual does not need to carry cash with him or her everywhere which in turn reduces the chances of theft from wallet, reduces inconvenience due to carrying cash. So, with the introduction of digital payment system the possibility of money getting stolen or lost will be minimum. Even if the card is stolen or lost it is easy to block a credit/debit card or a mobile wallet remotely. It is also a safer and easier spending option during tour and travelling.

**Eradication of the corruption:** Most of the cashless societies are corruption free as all the transactions are being traced, visible and transparent. Going cashless is going to eliminate the corruption to some extent. In cashless system, transactions will be simply easy and transparent which in turn will show in the accounts of the senders and the receivers. It is a well known fact that most of the terrorist related activities are highly funded by the cash. Therefore, placing a limit on the amount of cash flowing in the system, will curtail such activities as such types of transactions criminal transactions can be easily traceable and tracked. This will result in more transparent transactions which in turn lead to fall in corruption in the economy of the country.

**Reduction of black money: Schneider (2006)** estimates the size of India's black money economy between 23% and 26% of the GDP. Some recent estimates consider it between 40% and 75% of the GDP. In a cashless economy it is easier to track the black money. But in cash based economy money does not come into the banking system. In case of digital transactions it is easy to identify and monitor doubtful transactions as all the records are clearly available with the banks. This will, in no doubt, help in the reduction of black money and financial inequality. BJP in its election manifesto of 2014 general Lok Sabha election announced that if the government is able to bring back the black money then every Indian will have Rs.15 lakhs in their accounts.

**Increase in tax collection:** It has been observed that traders, small businesses, shopkeepers, never show the actual business on paper. This habit of evading sales has caused a lot of Impact on the tax of the country. Small shopkeepers generally do this to save tax. This practice has created a very big problem of loss of tax to the exchequer. But these will be quite impossible in cashless transactions. The presence of cashless economy will definitely result in surplus tax collection and also to spend these taxes for the benefit of the scheme.

**Financial Inclusion:** At present, India's low-income households access credit through informal systems, through relatives or private lenders. Forcing them to shift to cashless payment platforms instantly formalizes this world of informality and includes them in formal economy.



**Decrease the cost of commodity:** the cashless economy aims at reducing the cost of the commodities by setting aside the black market and the proper deposit of the tax. All this leads to the development of the system where one can find the cost of the commodity going down in the market. The developed economy like China is the best example for this.

**ECONOMIC GROWTH WITH DIGITAL PAYMENTS:** Financial sector plays an important role in the economic development of a country. A strong and healthy banking system is important requirement for economic growth **Sharma (2016)**. Digital payments are believed to be a major force in economic development and significantly affect spending behavior and consumption pattern of a consumer. Both emerging as well as developed countries are believed to be benefited from the implementation of the digital payments. Affluent society is possible as long as we use the digital technology in the economy. It has been observed that cashless economy leads to the start of proper formal and functional economy in the country. When all the transactions are made digitally in a clear and clean way and taxed, it may lead to the effective and efficient financial system that leads economic growth and development. Electronic payments will help business people to boost their customer base even in far of geographic locations and hence will result in enhanced business. The impact of adopting digital payment on economic growth can be significantly observed in the long run. Hence, any policy that promotes digital payment will not affect the economy immediately. The Government has the authority to be prime movers of what is needed towards the development of digital payment mechanism. With the private sector as a valuable partner, governments must lead to encourage progress in areas such as regulatory reform, driving electronic payroll payments and digitizing social benefit disbursements.

**CHALLENGES IN ESTABLISHING CASHLESS ECONOMY:** Digital payment in India is becoming popular still people face difficulties in making digital payments even in metro cities because of poor network. It always calls for improvement in technology in order to enhance security and ease of transaction. Common people will only shift if and only if it will be easier, certain and safe to make cashless transactions. Government will also have to find ways to incentivise cashless transactions and discourage cash payments. Difficulties are also there in changing attitudes and perception of people towards digital payments. The following are the major challenges in converting India into a cashless economy.

**Financial inclusion:** At present forty percent of the India's populations do not have access to the bank and banking services. Thus it is one of the major challenges for the government in the implementation in the cashless economy. Government has taken for opening the massive bank accounts under Pradhan Mantri Jan Dhan Yojna, a quarter of them are zero-balance accounts. As of July 2016, approximately 228 million accounts have been opened under the PMJDY scheme. Most of these accounts are lying dormant in the bank, **Gangopadhyay (2009)**. There are several other reasons like lack of money, lack of income, illiteracy and lack of information to the account holders.

**Lack of infrastructure:** Even today, people have to move to distant places to for banks. In such areas ATM facilities are not available. Most people don't have personal banking equipments. That is why lack of infrastructure is one of the main problems of cashless transaction or digital payments. The other important issue of digital payments is the lack of technology used in the rural areas and also reaches of technology to various locations. In this case also India is in developing stage also because many of the locations where the infrastructures are ready but services are not available for the customers.

**Lack of education:** According to the 2011 census, India has a literacy rate of 73 per cent. The country has come a long way from the 12 per cent literacy rate since its Independence in 1947; it still is home to the biggest population of illiterate adults in the world. Without the basic knowledge of reading and writing, using internet banking technology is of a distant reality for this population. Digital literacy is

just 10% in India. In the absence of digital literacy we can't expect the transformation of Indian economy from cash based to cashless economy.

**Access of technology:** Technology is the backbone to this digital payment system. Technology must be available in all the areas of the country; it means all the banks at the branch level even in the remote area should have the access to the technology. The technology must have all the aspects that can help the individuals to do the things better and effectively and it should be easily handled and used by the people. The people are not aware of the technology and are not so involved in the use of it.

**Lack of trust:** Most of the people due to one reason or the others are not willing to join the cashless banking solutions. Trust factor is one of the integral challenges to growth of digital payments in rural sector. Irrespective of whether it is attributed to emerging information security challenges, or lack of awareness of the consumers, still the challenge of gaining the trust of consumers is one of the key challenges facing the mobile wallets, digital transaction service providers like banks, fin-tech companies etc. **Pahwa (2016)**

**Lack of customer awareness:** The challenge of gaining the trust of customers is one of the major challenges faced by the mobile wallets, digital transaction service providers like banks, and other intermediaries etc. Consumers are not aware about the different aspects of cashless transactions. Lack of awareness is another challenge.

**Cyber Security:** with the increase in the magnitude of digital transaction, the risk of online fraud, leakage of confidential information, cyber-crimes, malware and virus attacks has been raising day by day. So, it another growing challenge in digital payments system and hence is the biggest concern to popularize digital payments I our country. The absence of strong cyber security laws in India is a major threat to the dream of cash-less economy.

**Charges on Cashless Transactions:** Almost all online transactions involve some amount of cost charged by service providers when online transactions are done. These are additional charges that are levied by the vendors. These charges also create problems in the smooth implementation of cashless transactions.

#### **SUGGESTIONS AND CONCLUSION:**

This paper analyses the key benefits that can be availed of by the proper implementation of digital payment system and thereby converting India into a cashless economy. In doing so, it identifies pros and cons of the cashless economy as well as what is functioning and what requires improvements in our country. It is found that in countries where digital payments have been implemented had positive impact on their economies. The modalities of digital payments of India are at emerging stages and there is considerable need for more effective rules and regulations that can support in improving the process. If we look at the overall scenario of establishing the cashless economy, its benefits and uses 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. It will be better to say that India at this point of time has to go for less cash economy rather than cash less economy. This is to be done in a very systematic way. Some of the initiatives that can be taken in this regard are as follows;

- People should be educated adequately. Buyers and sellers both should be made aware about the benefits of the cashless transactions and can utilize their money effectively through cashless means. The continuous march towards less cash economy will lead to cashless economy in the country in near future.

- Though Significantly higher proportion of individuals are involved in making cashless payments now (12.61% in 2014 as compared to 3.47% in 2011) it is far below the required level. So, various awareness programme is required be conducted in rural as well as urban areas regarding the usage of digital payments like Smartphone based transactions, e-wallet and usage of credit or debit cards at PoS solutions etc.
- In order to encourage people towards cashless payment it is to incentivize. In the same way e-payment costs associated with various types of e-payments must be either eliminated or reduced to the extent possible.
- Licensing of payment banks is one of the best suggestions to promoting the cashless transaction. Mobile banking is to be introduced as extension of banking. At present, payments through mobile wallets dominate the cashless payments, loading the mobile wallet is currently allowed entirely through bank accounts. Provisions are to be taken for the deposit of cash in the mobile wallet directly through cash deposit machine.
- All the line department functionaries such as school teachers, health workers, village development officers, Anganwadi workers, etc. must educate the people about the financial inclusion and digital economy. The self help groups (SHGs) can be of great help to the people in the promotion of digital banking systems in the rural areas. More and more SHGs must be given the charge of Bank Mitras (friend) who can extend their help to the bank, post offices and Bank corresponding for proliferation of digital economy. The Gram Sabhas in Panchayati Raj Institutions and Ward Sabhas in Urban Local Bodies must take up the issue of digital economy at the village level.
- Electronic payment infrastructure should be made completely safe and secure so that incidents of cybercrimes like hacking, leaking confidential information etc. could be minimised automatically .it will automatically boot up digital payments and India will gradually move on from cash based to cashless economy.

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