

A STUDY ON IMPACT OF CASH LESS TRANSACTION ON THE INDIAN ECONOMY

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Abstract:

With limited cash in hand and an indefinite crunch in sight, most people are rushing to cashless transactions. Digital transactions bring in better transparency, scalability and accountability. The world is rapidly moving towards digitalization, and there's no denying its presence in almost all fields of our lives. Whether it is shopping, education, banking, groceries, bill payments, tax filing or any legal documentation. Even money has gone digital, with more and more people preferring to use digital cash payment methods rather than carrying hard cash around. Reducing the economy's dependence on the cash and making it more deviated towards these mediums would result into the betterment of the country and the economy. It will help in curbing the generation of black money. The cashless economy has attacked the parallel economy. People who hoard money under their bed, people who launder money bypassing banking channels, terrorist who need money to finance their terror will find difficulty in cashless economy. It will help in reducing instances of tax avoidance. Cashless economy will boost consumption as people would not be attracted towards keeping money in banks. More consumption will lead to more production, more employment opportunities & hence, income of people will increase.

Key words: Digitalization, Indian Economy, Technological advancement, Paperless transaction.

1. INTRODUCTION

The vast Indian economy which supports and supplies its gigantic population has its own momentum and inertia. While the policy moves and technological developments have made a cashless system possible, it is still far from easy. For the Indian economy to become cashless, every conceivable use of money today must have a digital equivalent or method of purchase; in other words, every shop, merchant, and commercial company that sells to consumers must be able to receive payments digitally. Urban retailers and consumers find the shift to a digital system far more convenient than their rural counterparts, who lack point-of-sale (PoS) card systems or digital payment accounts. Companies have piggy-backed upon the impressive penetration of cell phones into the Indian market, and e-wallets are a great way to cost-effectively allow for this technology to reach every corner of the nation. For India to meaningfully realize the promise of a digital economy, it must make a serious effort towards increasing the access of people to the India Stack, and account for the fact that many might not have internet access or smart phones. It must also develop stronger systems to protect against fraud, theft, and crime.

Cashless economy or cashless means all the transactions carried out between two individuals will occur by payment through payment gateways or through the plastic money. It is done with the primary aim of uncovering the non-registered transactions. The Indian government with another aim to promote the economy through non-cash transactions has introduced mediums such as: Banking cards, USSD, AEPS, UPI, Mobile Wallets, Banks Pre-Paid Cards, Point of Sale, Internet Banking, Mobile Banking, Micro ATM's. Reducing the economy's dependence on the cash and making it more deviated towards these mediums would result into the betterment of the country and the economy.

2. Review of literature

Paves way for a clear understanding of the areas of research already undertaken and throws a light on the potential areas which are yet to be covered. Keeping this view in mind, an attempt has been made to make a brief survey of the work undertaken on the field of Cashless economy. The reviews of some of the important studies are presented below. Cashless economy is not the complete absence of cash, it is an economic setting in which goods and services are bought and paid for through electronic media.

- **Ashish Das, and Rakhi Agarwal, (2010)** in their article “Cashless Payment System in India- A Roadmap” Cash as a mode of payment is an expensive proposition for the Government. The country needs to move away from cashbased towards a cashless (electronic) payment system. This will help reduce currency management cost, track transactions, check tax avoidance / fraud etc., enhance financial inclusion and integrate the parallel economy with main stream.
- **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.
- **Jain, P.M (2006)** in the article —E-payments and e-banking opined that e- payments will be able to check black —An Analysis of Growth Pattern of Cashless Transaction System. Taking fullest advantage of technology, quick payments and remittances will ensure optimal use of available funds for banks, financial institutions, business houses and common citizen of India. He also pointed out the need for e-payments and modes of epayments and communication networks.
- **Srinivas, N. (2006)** in his study —An analysis of the defaults in credit card payments, has tried to analyse 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.
- **Reddy, Ramakrishna (2006)** in his article “Card products in India”, commented about the reasons for not attaining full growth potential among card products and suggest remedies for growth in this field for the benefit of all players.
- **Vincent, L. (2005)** in the article “Credit cards - Modern payment system”, provided information about credit card functioning in India and settlement and concluded that it is a blessing to both the traders and customers.
- **Marco and Bandiera (2004)** argue that increased usage of cashless banking instruments strengthens monetary policy effectiveness and that the current level of e-money usage does not pose a threat to the

stability of the financial system. However, it does conclude that central banks can lose control over monetary policy if the government does not run a responsible fiscal policy.

3. Statement of the problem

A cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal. India uses too much cash for transactions. The number of currency notes in circulation is also far higher than in other large economies. In this context recent trend have been changed, while revolution in the information technology in India. The researcher tries bridge the gap between awareness about the smart phone makes use of it in rural India.

4. Objective of the study

- To identify the benefits of going cashless.
- To take up the challenges in making India cashless.
- To access growth of India on the path of being cashless in terms of digital transactions such as credit, Debit & bank payments.
- To serve the goal of RBI in electronification of payments.

5. Importance of cashless transaction

The cashless economy has importance attached to it in the following ways:

- **Taxation:** with lesser availability of hard cash at homes and more in banks, there is lesser scope of hiding income and evading taxation and when there are more tax payers it ultimately leads to a lesser rate of taxation for the whole country.
- **Transparency and accountability:** it becomes a lot easier to track the flow of money with every transaction being recorded with the buyer, seller as well as regulatory bodies, making the system much more transparent and compliant. In the long term it leads to better business and investment prospects for the economy as a whole. More currency in bank will mean more circulation of money in the economy, leading to greater liquidity and would eventually mean lesser interest rates (according to the monetary policy of the country).
- **Reduced redtapism and bureaucracy:** with cashless transactions through electronic means the wire transfers are tracked and people are accountable which in turn reduces corruption and improves service time.
- **Less availability of cash for illegal activities:** when people are encouraged to go cashless, there is lesser cash available with the people and there won't be a means to invest in other activities to use the idle cash. Channels like hawala (illegal remittance) will ultimately suffer the brunt of a cashless economy.
- **Pack of cards:** No need to carry bulky notes in a case. Just carrying the required cards or mobile banking will suffice. More sense of safety with a PIN protected card etc. which will work only with your own credentials.
- **No fear of being robbed** unlike carrying cash and letting everyone know that there could be something worth snatching.

- **Tracking of expenses:** it becomes easier to determine how much was spent where.
- **The exact amount in small denominations can be paid.** Unlike cash transactions, there is no need to pay fringe amount in case the exact amount is not available with either of the parties. An important, though seemingly insignificant issue is that of hygiene of the notes.
- **Easier accounting:** Direct payment to bank account. You don't need to go every day to deposit cash to your current account.
- **Easier transactions:** We can easily do any transaction with security.
- **Benefit to Government:** The government will benefit from the cashless economy in the area of adequate budgeting and taxation, improved regulatory services, improved administrative processes (automation), and reduced cost of currency administration and management (Ashike, 2011). Jimi Agbaje, one of the former governorship candidates on the platform of DPA in Lagos State states that the advantages of a cashless society range from regulating and controlling to securing the financial system of our economy.
- **Illegal political funding:** Political donation is the major concern in the country. Majority of the funding in the political party is unaccountable which is not revealed by the party as well as the donor. All that kind of illegal transaction would be stopped if a government follows cashless transaction.
- **Cost of printing and distribution of currency:** The cost of printing and distribution of currency would be zero for the cashless transaction as no paper notes to print and distribute.

6. Advantages of going cashless:

- **Convenience**
The ease of conducting financial transactions is probably the biggest motivator to go digital. You will no longer need to carry wads of cash, plastic cards, or even queue up for ATM withdrawals. It's also a safer and easier spending option when you are travelling. "The benefits are enormous if you leave out the low-income group, which will face a huge challenge," says Kartik Jhaveri, Director, Transcend Consulting. "For the rest of the country, it is constructing. It will be especially useful in case of emergencies, say, in hospitals," he says. Adds Jayant Pai, Head, Marketing, PPFAS Mutual Fund: "You have the freedom to transact whenever and wherever you want. You don't have to be physically present to conduct a transaction or be forced to do so only during office hours."
- **Discounts:** The recent waiver of service tax on card transactions up to Rs 2,000 is one of the incentives provided by the government to promote digital transactions. This has been followed by a series of cuts and freebies. It's a good time to increase your savings if you take advantage of these. For instance, 0.75% discount on digital purchase of fuel means that the petrol price in Delhi at Rs 63.47 per litre can be brought down to Rs 62.99/l with digital payment. Similarly, saving on rail tickets, highway toll, or purchase of insurance can help cut your costs. Add to these the cash back offers and discounts offered by mobile wallets like Paytm, as well as the reward points and loyalty benefits on existing credit and store cards, and it could help improve your cash flow marginally.
- **Tracking spends:** If all transactions are on record, it will be very easy for people to keep track of their spending. It will also help while filing income tax returns and, in case of a scrutiny, people will find it easy to explain their spends," says Manoj Nagpal, CEO, Outlook Asia Capital. "Besides the tax, it will have a good impact on budgeting," says Pai.
- **Budget discipline:** The written record will help you keep tabs on your spending and this will result in better budgeting. "Various apps and tools will help people analyse their spending patterns and throw up good insights over a couple of years," says Jhaveri. Controlled spending could also result in higher investing. If the same amount of cash does not flow back into circulation and people continue to use mobile wallets and cards, it is also likely to bring down the latte factor.

- **Lower risk:** If stolen, it is easy to block a credit card or mobile wallet remotely, but it's impossible to get your cash back. "In that sense, the digital option offers limited security," says Pai. This is especially true while travelling, especially abroad, where loss of cash can cause great inconvenience. Besides, if the futuristic cards evolve to use biometric ID (finger prints, eye scan, etc), it can be extremely difficult to copy, making it a very safe option.
- **Small gains:** It may not seem like much of an advantage, but being cashless makes it easy to ward off borrowers. Another plus is that you can pay the exact amount without worrying about not having changed or getting it back from shopkeepers.

7. Challenges in making India cash less Economy:

- Availability of internet connection and financial literacy.
- Though bank accounts have been opened through Jan Dhan Yojana, most of them are laying unoperational. Unless people start operating bank accounts cashless economy is not possible.
- There is also vested interest in not moving towards cashless economy.
- India is dominated by small retailers. They don't have enough resources to invest in electronic payment infrastructure.

The perception of consumers also sometimes acts a barrier. The benefit of cashless transactions is not evident to even those who have credit cards. Cash, on the other hand, is perceived to be the fastest way of transacting for 82% of credit card users. It is universally believed that having cash helps you negotiate better. Most card and cash users fear that they will be charged more if they use cards. Further, non-users of credit cards are not aware of the benefits of credit cards.

Indian banks are making it difficult for digital wallets issued by private sector companies to be used on the respective bank websites. It could be restrictions on using bank accounts to refill digital wallets or a lack of access to payment gateways. Regulators will have to take a tough stand against such rent-seeking behaviour by the banks.

8. Steps taken by RBI and Government to discourage use of cash:

- Licensing of Payment banks
- Government is also promoting mobile wallets. Mobile wallet allows users to instantly send money, pay bills, recharge mobiles, book movie tickets, send physical and e-gifts both online and offline. Recently, the RBI had issued certain guidelines that allow the users to increase their limit to Rs 1,00,000 based on a certain KYC verification
- Promotion of e-commerce by liberalizing the FDI norms for this sector.
- Government has also launched UPI which will make Electronic transaction much simpler and faster.
- Government has also withdrawn surcharge, service charge on cards and digital payments

9. Types of online transaction:

1. **National Electronic Fund Transfer (NEFT):** National Electronic Funds Transfer (NEFT) is a nation-wide payment system facilitating one-to-one funds transfer. Under this Scheme, individuals, firms and corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme. Individuals, firms or corporates maintaining accounts with a bank branch can transfer funds using NEFT. Even such individuals who do not have a bank account (walk-in customers) can also deposit cash at the NEFT-enabled branches with instructions to transfer funds using NEFT.

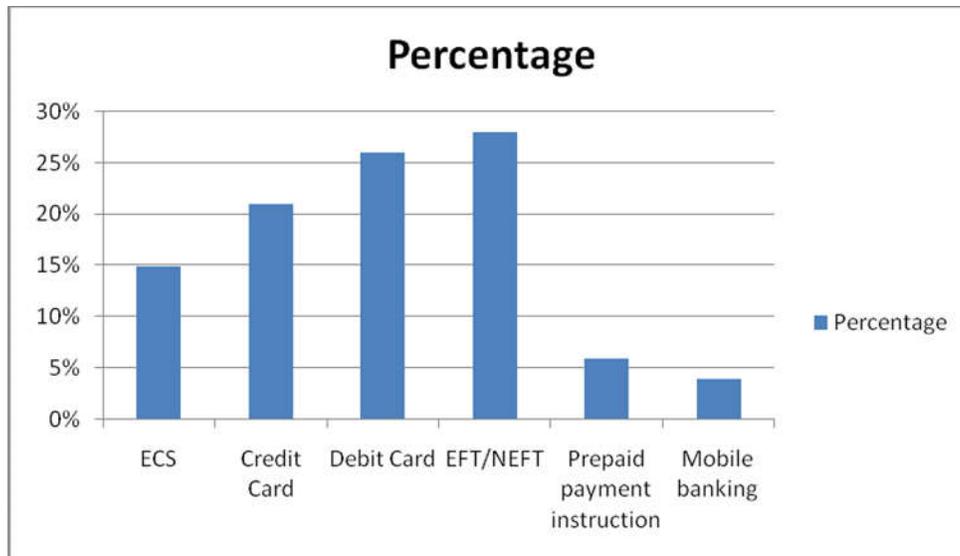
2. **Real Time Gross Settlement (RTGS):** RTGS is defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis (without netting). 'Real Time' means the processing of instructions at the time they are received rather than at some later time; 'Gross Settlement' means the settlement of funds transfer instructions occurs individually (on an instruction by instruction basis). Considering that the funds settlement takes place in the books of the Reserve Bank of India, the payments are final and irrevocable. The RTGS system is primarily meant for large value transactions.
3. **Electronic Clearing System (ECS):** ECS is an alternative method for effecting payment transactions in respect of the utility-bill-payments such as telephone bills, electricity bills, insurance premium, card payments and loan repayments, etc., which would obviate the need for issuing and handling paper instruments and thereby facilitate improved customer service by banks / companies / corporations / government departments, etc., collecting / receiving the payments.
4. **Immediate Payment Service (IMPS):** IMPS offers an instant, 24X7, interbank electronic fund transfer service through mobile phones. IMPS is an emphatic tool to transfer money instantly within banks across India through mobile, internet and ATM which is not only safe but also economical both in financial and non-financial perspectives.

10. Retail Electronic payments:

The government wants India to be a cashless economy: the move towards a cashless economy is a move towards greater accountability towards the flow of money, reduction in black economy and bringing more people into the banking system. The retail electronic payment space in India is dominated by inter-bank money transfer modes like NEFT or National Electronic Fund transfer, Electronic clearing system, and credit and debit cards. Newer modes of payment like prepaid wallets along with mobile banking are becoming popular.

Six banks, including ICICI Bank, India's largest private sector bank, and the State Bank of India, India's largest public sector bank, launched the Interbank Mobile Payments Service, allowing customers to transfer money between bank accounts, on the basis of mobile money ID's.

| Category | Percentage |
|-----------------------------|------------|
| ECS | 15% |
| Credit Card | 21% |
| Debit Card | 26% |
| EFT/NEFT | 28% |
| Prepaid payment instruction | 6% |
| Mobile banking | 4% |



11. Steps taken by the Government of India:

Government is also promoting mobile wallets. Mobile wallet allows users to instantly send money, pay bill, and recharge mobiles, book movie tickets, and send physical and e-gifts both online and offline. Recently, the RBI had issued certain guidelines that allow the users to increase their limit to Rs 1, 00,000 based on certain KYC verification. Various incentives offered by government to promote digitalization in India to make India “Digital India” by focusing on cashless modes are:

- On digital transactions up to rupees 2000, Service Tax of 15% waived off.
- Digital purchase of fuel through credit cards, mobile wallets or e-wallets, discount of 0.75%.
- Free accident insurance worth rupees 10 lakh on account of online ticket buyers.
- On purchase of new LIC policies online via its site, 8% discount is offered.
- Government has also launched UPI (PDF) (Unified Payment Interface), payment system that can be used for immediate mobile transfers between account holders of two different banks.
- Government has introduced various technologies like BHIM (Bharat Interface for Money) app to transact between each other as well as with other merchants. BHIM App currently has 17 million downloads in less than 3 months since its launch.
- Government is considerably promoting their digital cashless technologies other than BHIM such as UPI & Aadhar Enabled Payment Systems.
- In addition to government or RBI, Companies are also participating in combating of cyber crimes because of increasing trend of cashless or digital transactions. Microsoft opened full scale cyber security Center called Cyber security Engagement center (CSEC) in India.

12. Suggestion:

- Open Bank accounts and ensure they are operationalized.
- Abolishment of government fees on credit card transactions; reduction of interchange fee on card transactions; increase in taxes on ATM withdrawals.
- Tax rebates for consumers and for merchants for adopting electronic payments.
- Making Electronic payment infrastructure completely safe and secure so that incidents of Cyber crimes could be minimized and people develop faith in electronic payment system.

- Create a culture of saving and faith in the financial system among the rural poor people.
- The Reserve Bank of India will have to come to terms with a few issues, from figuring out what digital payments across borders means for its capital controls to how the new modes of payment affect key monetary variables such as the velocity of money.
- RBI will also have to shed some of its conservatism, part of which is because it has often seen itself as the protector of banking interests rather than overall financial development.
- The regulators also need to keep a sharp eye on any potential restrictive practices that banks may indulge in to maintain their current dominance over the lucrative payments business.

13. Future Plans of Digitization:

The future of the Cashless India looks pretty promising as the response of the country people towards this move of the government and the support towards it is a clear indication that the government's move is likely to succeed. The transparency in the economy will increase through the e-commerce transactions and the digital payment gateways which will increase the GDP of the economy. This will increase the creditability of the country and make a rise in investments. This step of cashless is truly going to create ripples of big success. For the industrialists, it is a great time to integrate the cashless practices will be benefitting in the near future. Let's fix the problems demonetization caused to you and be the part of a better, developed, digitally equipped and Cashless India together. The world is rapidly moving towards digitalization, and there's no denying its presence in almost all fields of our lives. Whether it is shopping, education, banking, groceries, bill payments, tax filing or any legal documentation; you can do all of it online! You can use your Smartphone, laptop or desktop to carry out these online transactions. Even money has gone digital, with more and more people preferring to use digital cash payment methods rather than carrying hard cash around. So, let's learn a little more about digital money and its different facets.

14. CONCLUSION

The digitization of everything is a step change even greater than the invention and adoption of the internet, primarily because of its scale and pace of change. What we describe today as 'digital' in a few years time will have no need for the descriptive word. A 'digital camera' is already a mere 'camera' to those who know no different. In the same way, a 'digital' strategy will become business as usual strategy. This is why it is so important to get a head start and learn while there is still time. Digital is changing the world, and progress is not linear. In a world where a smartphone is no longer just a smartphone, but a potential revolution⁸, we invite organisations to explore what digital advances mean for them and their stakeholders. We support the opinion of executives who view digital much more as an opportunity to be tapped than as a risk to guard against. Not every digital initiative will work for every organisation, and it is important to assess capability and capacity for change before deploying a digital strategy. In general, though, the more holistic the initiative, the greater the chance of success. We believe that those who act holistically, and act now, stand to gain the greatest competitive advantage.

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