

## **A Conceptual Study on Cash to Cashless Economy – Transforming India towards Digitization**

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### **Abstract:**

India is such a country where most of the payments are done in cash forms whether is done between businesses or it is done between business and the final customer. To become a developed country it is required to transform towards the cashless economy. This conceptual study analyzes the movement of big cash economy towards the cashless economy. This paper also analyze the challenges that are faced by such a large economy and also the opportunities created by this transformation. Its an ardent effort to move towards a cashless transaction economy by minimising the use of physical cash. The leading advantage of building a cashless economy is elimination of black money. Digitalisation of transactions is the best way to move towards cashless economy. Such a cashless economy is realisable by promoting electronic money instruments, developing financial infrastructure and spreading digital transaction habits among people. RBI's Payment and Settlement Vision document 2018 gives objectives and guidelines towards cashless economy. It's a big move towards the motive to be Developed country.

**Key Words:** Cashless Economy, Financial Inclusion, Digitalization, Electronic Payment System

### **Introduction:**

India is a country with currency in circulation Rs. 17.97 lakh crore (trillion) as on November 2016 and with annual population growth rate of around 1.2% annually the need of currency for transaction will also rise .With 1.34 billion population of this country and only 3-4% actually paying taxes there is really a point of concern .Please take note every year Government bear around 1.7% of real GDP as a cost of cash and foregone tax revenues

from the 'shadow' economy account for 3.2% of GDP.

### **Cashless society**

A **cashless society** describes an economic state whereby financial transactions are not conducted with money in the form of physical banknotes or coins, but rather through the transfer of digital information (usually an electronic representation of money) between the transacting parties. Cashless societies have existed, based on barter and other methods of exchange, and cashless transactions have

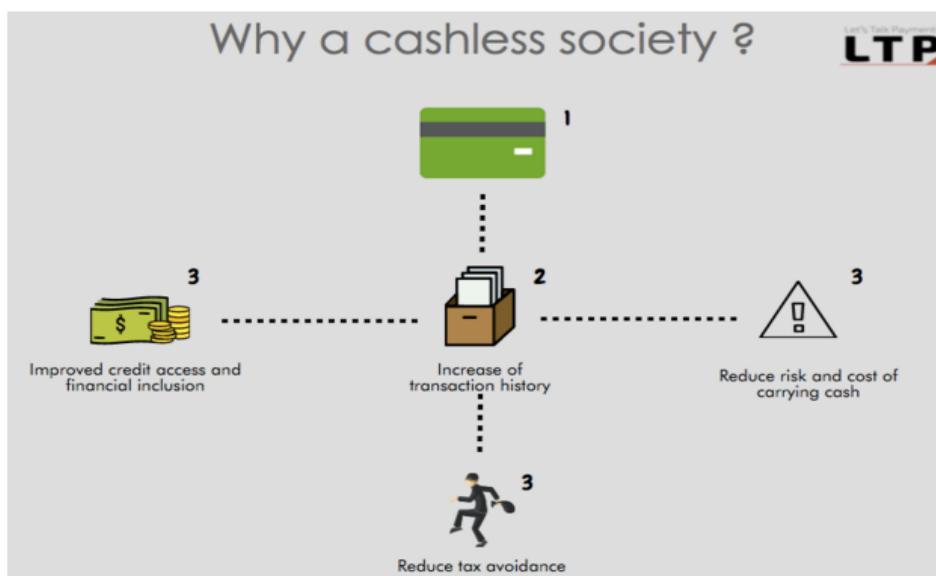
also become possible using digital currencies such as bitcoin. However this article discusses and focuses on the term "cashless society" in the sense of a move towards, and implications of, a society where cash is replaced by its digital equivalent - in other words, legal tender (money) exists, is recorded, and is exchanged only in electronic digital form.

A cashless society is a term describing the economic eco-system in which palpable, physical money, namely paper banknotes and metal coins, are replaced with virtual, digital money, and where cash circulation is substituted with payments done by using numerous types of cards, mobile devices and

various other equipment connected to the internet.

India is an ardent effort to move towards a cashless transaction economy by minimising the use of physical cash. The leading advantage of building a cashless economy is elimination of black money. Digitalisation of transactions is the best way to move towards cashless economy. Such a cashless economy is realisable by promoting electronic money instruments, developing financial infrastructure and spreading digital transaction habits among people. RBI's Payment and Settlement Vision document 2018 gives objectives and guidelines towards cashless economy.

### Why Cashless Society?



The four key prerequisites for going cashless have been identified as follows:

**1. Broad access to financial services.** This involves the availability and affordability of financial services and products and whether people use bank accounts and electronic payment products. However, due to

cellphone penetration, which is estimated to be in excess of 100 percent, there is wide spread use of cellphone banking, which is a positive attribute. We need to capitalise on this and enable cellphones to be used as

payment instruments. This is certainly beginning to happen as the uptake of the necessary technology increases.

**2. Merchant scale and competition are also key determinants.** These indicate the potential for uptake of new payment solutions by large scale merchants and also consider the intensity of local competition. The cost of implementation of cashless systems continues to be quite high (e.g. a POS system costs US\$500) and this has tended to limit their availability. Interestingly enough, the liquidity crisis has inadvertently forced accelerated adoption of cashless systems by many retailers, large and small, and this can only work to our benefit.

**3. Macro-economic and Cultural factors.** Included are factors that impact on preference for cash, such as ease of doing business and size of the informal economy. The large informal sector also prefers cash for many reasons and do not pay tax, hence the resistance of formal cashless systems. The unstable macro-economic environment has not encouraged the use of cashless systems and keeping money in the bank due to anxiety and distrust of the banking sector.

**4. Technology and Infrastructure issues.** These consider access to and uptake of new technologies as well as innovation (including the quality of infrastructure). If we are to expedite the emergence of a cashless society, we have to upgrade our infrastructure and ensure that all have access to it. Constant power supply, access to affordable broad band, new affordable technologies and equipment are some of the

issues which we need to address here. Firstly, the historically skewed development towards urban areas leaves a large number of our population in the rural areas without access to technology and infrastructure. Secondly, the migration to urban areas has further put pressure on urban infrastructure, while effectively under developing the rural sector where more than 70 percent of our population resides. This does not help broad-based inclusive economic development, financial inclusion and employment creation. These are some of the opportunities and challenges which we face in going cashless. There is no debate that the advantages far outweigh the disadvantages. As our economy develops there is no doubt that we will become more cashless. In conclusion, it is critical that key issues of economic revival, increased competition, infrastructure development, affordable financial services, financial inclusion and renewed confidence in our banking sector, employment creation and culture change through education have to be addressed before we can see significant uptake of cashless systems and the benefits therefrom.

### **Benefits of Cashless movement**

The benefits of a cashless society to the transacting public are much more than just

- Convenience and Safety associated with the payment system.
- Current tight liquidity conditions and the need for financial transparency and inclusion can be solved through the adoption of plastic money.

- This also has the potential to contribute to gross domestic product (GDP) growth as the majority of the populace is brought into the banking system.
- In addition, a significant percentage of GDP can be realised in the form of savings if the transactions shift from cash to an electronic-based transaction system because money remains in the bank longer.
- Because cashless payments can be traced, since they leave digital trails, it is argued that illegal market activities and illicit fund flows can be restrained and possibly even eliminated in the long term thus benefiting the economy.
- Records of financial transactions would be easy to maintain.

### Challenges and prospects for cashless transaction economy

Government's demonetization drive is also supposed to benefit cashless economy. Still there are several constraints as well as prospects in the journey towards cashless economy.

#### Challenges

- **Currency dominated economy:** High level of cash circulation in India. Cash in circulation amounts to around 13% of India's GDP.
- **Transactions are mainly in cash:** Nearly 95% of transactions takes place in cash. Large size of informal/unorganised sector entities

and workers prefer cash based transactions. They don't have required digital and fintech literacy.

- **ATM use is mainly for cash withdrawals and not for settling online transactions:** There are large number of ATM cards including around 21 crore Rupaya cards. But nearly 92% of ATM cards are used for cash withdrawals. Only low level of digital payment using ATM cards. Multiple holding of cards in urban and semi-urban areas show low rural penetration.
- **Limited availability of Point of Sale terminals and poor transaction culture in POS:** According to RBI, there are 1.44 million POS terminals installed by various banks across locations at the end of July 2016. But most of them remains in urban/ semi-urban areas.
- **Mobile internet penetration remains weak in rural India:** For settling transactions digitally, internet connection is needed. But in India, there is poor connectivity in rural areas. In addition to this, a lower literacy level in poor and rural parts of the country, make it problematic to push the use of plastic money on a wider scale.

#### Prospects

- **The JAM infrastructure can encourage digital transaction culture:** The JAM infrastructure is spreading to reach each remote corner of the country as well as to

every citizen. Almost 24 JDY Accounts, 124 Aadhar identity cards and nearly 90 crore mobile phones. Similarly, 33 million internet users are in India. This means that the JAM infrastructure can be used to promote cashless transactions.

- A large number of government transfers (DBT) are made through JAM mode. This will help people to get digital transaction awareness.
- The growth in volume and value of transactions using prepaid payment instruments (PPIs) issued by banks and authorised non-bank entities has also been significant.
- NPCI promoted Aadhaar enabled Payment System, IMPS etc and they have registered big turnover in transactions. Newly launched UPI (Unified Payment Interface) is expected to give a big boost to cashless transactions.
- Number of credit and debit cards are increased to 25.4 million and 691.1 million, respectively. The demonitisation drive may encourage people to learn and settle transaction using online.
- RTGS and NEFT volumes increased almost threefold between 2013 and 2016 reflecting greater adoption of the system by all segments of users.
- As more people start using RuPay debit cards and Aadhaar for digital payments, it will facilitate a less cash economy.

- With increasing mobile banking services, growth in e-commerce and use of mobile payment applications, the use of cash will decrease.

The RBI has made several efforts to promote digital settlements. Most important of them are launch of a regulatory set up for Prepaid Instruments (PPIs). Similarly, encouragement to mobile banking and internet banking will help to reduce the use of physical cash.

There are some threats to the transformation which are as below:

- **Mindset of keeping and saving cash**

This is the most dominating factor in our country which will give challenges to this transformation. But this can be solved if government gives reasons/advantages for moving to digital economy. Be it incentives or bonuses or other benefits, if government use the money which is saved because of going digital (cost of cash) in these kind of promotion, I think there will be more acceptability.

- **Financial Inclusion**

Still many people are not in the financial inclusion of the country. For women the figures are really bad. Government should promote the cashless economy by using the platforms of women empowerment so that be it entrepreneurial role or a housewife role or a mother role the transaction through digital channel

gets increased. Imagine a situation where a mother does not give pocket money to her school going child and give instead a separate card having dedicated amount for his expenses in account.

- **Digital literacy**

Personally I know many people who do not know how to use payment apps like Paytm. Some do not know how to make on-line payments. Despite of bearing pain of standing in queue many people do money transfer standing in queues especially in rural areas and tier 3 cities and places which are close to such areas. And this happens because they are not knowing how to use such tools. I think this is where opportunities are in creating jobs. Imagine for every villages there is one trainer assigned by government or banks who train few people and they also join government initiative as an employee in training others. But just providing knowledge about how to use is not sufficient. From security point of view required information should be given like Dos and Don'ts.

- **Connectivity**

Still many areas do not get proper Internet connections.

### **Suggestions:**

Government may take the following steps on urgent basis for the transformation:

1) Make the payment mode digital at places like government offices, petrol pumps, toll points, railway stations, banks, state buses and their bus stops mandatory.

2) Make the payment channels in supply chain involving rural sector digital with cash going directly to the real person and for this appoint individuals within those areas to train them and to guide them to promote this transformation among villagers.

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