

# CASH TO CASHLESS COMMON MAN - A DIGITAL INDIA

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## **Abstract**

*The barter system has been used for centuries and long before money was invented. People exchanged services and goods for other services and goods in return. When the concept of money came into existence, it was defined as a circulating medium of exchange as demarcated by the government. Now we have the facility of financial transactions not conducted with money in the form of physical banknotes or coins, but rather through the transfer of digital information. Electronic commerce (e-commerce) has a continuous impact on the global business scenario, but mobile applications and technologies have also begun to focus more on mobile banking, digital wallet, m-commerce and the wireless web. Against the various backdrops, the digital wallet (e-wallet) has emerged as a new channel of distribution, without much research being devoted to its adoption. Therefore, the present studies analyse most of the previous studies done on mobile banking and digital wallet adoption. It also emphasises the customers' attitude towards the adoption of e-wallets. This topic also helps us to know about demonetization and how it has been helpful in increasing or decreasing the Indian economy? This paper discusses the benefits and drawbacks of cashless transactions. This study makes several suggestions for further research in this area of digitalization as well as demonetization.*

**Keywords:** *Demonetization, Demarcated, Electronic Commerce, Mobile Banking, Digital Wallet*

## **Introduction**

A cashless economy is an economy where maximum transactions are done without using the physical cash but through plastic money or digital means like credit cards, debit cards, e-wallets and electronic fund transfers (ECS, NEFT, RTGS, USSD, UPI, Aadhar-based payment system etc.). Cashless economy is a new buzzword aimed by many economies around the world. It is one of the trending and emerging concepts, which is regarded by eminent economists as the best form of the modern economy. The concept of a cashless economy in India is focused on the objective of transforming the country into a society, which is digitally enabled and empowered by various modes of cashless transaction. The idea of a cashless economy is to keep the usage of cash at a minimum. India is one of the few countries where the usage of cash is the most. It is only after demonetisation most people have started using plastic money in the form of debit cards/credit cards etc. The government has been taking initiatives to promote e-payment, plastic transactions and cashless payment. The cashless transaction brings greater transparency, ease and convenience to monetary transactions. At the same time, non-cash transaction reduces the flow of black money to some extent and also increases liquidity in the banking system which will eventually lead to the development of the Indian economy. With the expansion of telecommunications, the increased number of smartphone users and innovations of a large number of digital payment platforms like Paytm,

UPI APPs, mobile wallets, smart cards etc usage of non-cash transactions have increased. India is in transition to become cashless society. However, Indian retail sector is still ascendant over cash transaction. A large number of small and medium scale retailers still prefer cash transaction. The participation and willingness of retailers to adopt cashless transaction is of prime importance in the movement towards cashless economy as the volume of monetary transaction in the retail sector is very high.

The Digital India program started by the government of India is a flagship program visioning Indian transformation into a digital economy. “Faceless, paperless, cashless” is the main role of Digital India. Thus, to strengthen the program, the government of India went on for financial inclusion linking the bank accounts of people with their salaries and opening of bank accounts linked with Aadhaar accounts under Jan Dhan scheme. In addition, the step of demonetization equally attributes towards making India move forward on the path of becoming cashless.

### **Types of Cashless Modes and Payment**

- **Mobile Wallet:** It is basically a virtual wallet available on our mobile phone. We can store cash on your mobile to make online or offline payments. Various service providers offer these wallets via mobile apps, which are to be downloaded on the phone. We can transfer the money into these wallets online using credit/debit cards or Net banking.
- **Plastic Money:** It includes credit, debit and prepaid cards. The cards can be issued by banks or non-banks and they 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:** We 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 RBI classifies every mode of cashless fund transfer using cards or mobile phones as a ‘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: Open Wallets, Semi-Open Wallets, Closed Wallets, and Semi-Closed Wallets.

### **Types of Plastic cards**

1. **Credit Cards:** A Credit Card is a plastic card bearing an account number assigned to a cardholder with a credit limit that can be used to purchase goods and services and to obtain cash disbursement on credit.
2. **Debit Cards:** Debit Cards are substitutes for cash or cheque payments in much the same way that credit cards are.

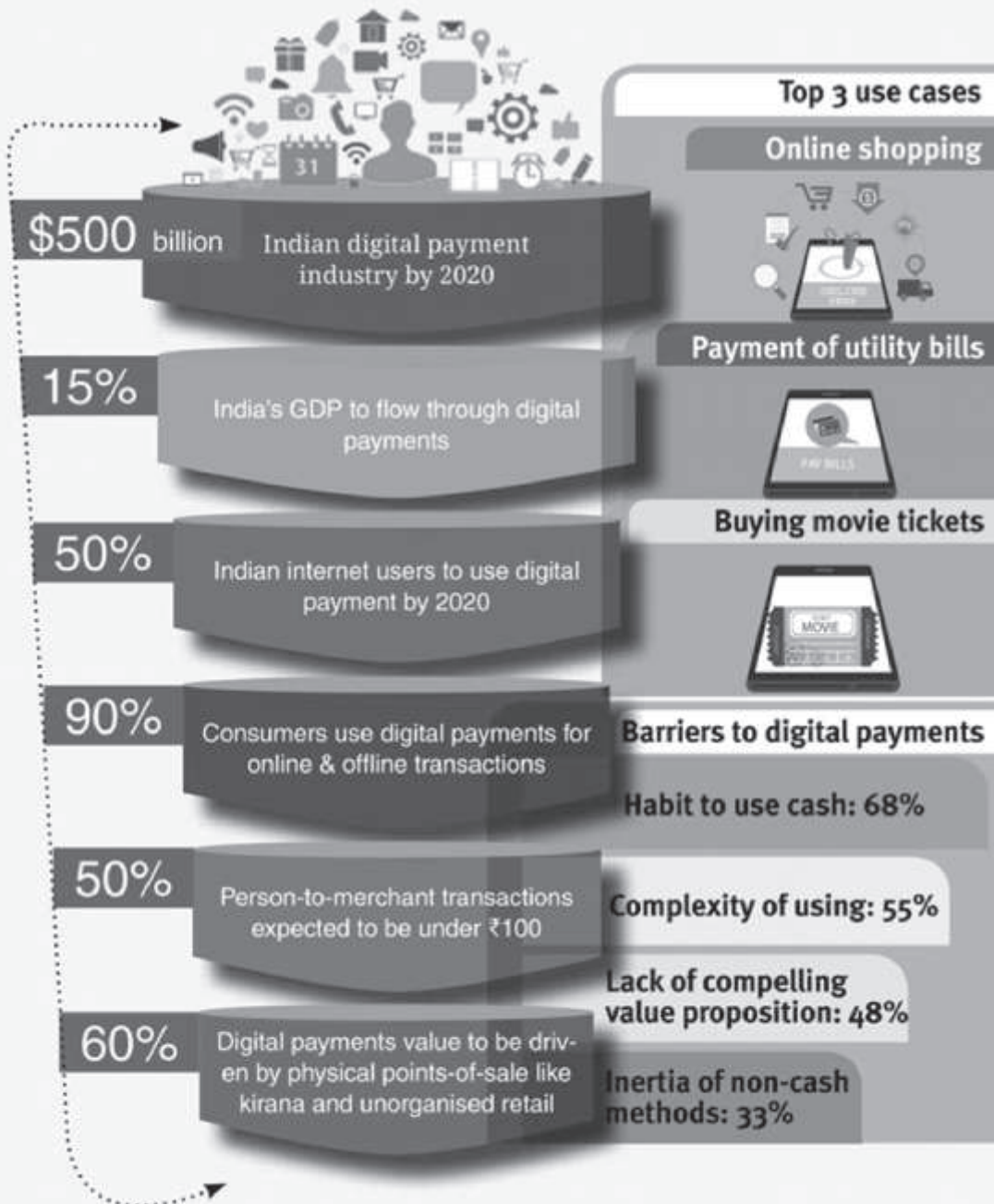
3. **Charge Cards:** A charge card means obtaining a very short-term loan for a purchase. It is similar to a credit card, except that the contract with the card issuer requires that the cardholder must each month pay charges made to it in full there is no minimum payment other than the full balance. Since there is no loan, there is no official interest. A partial payment results in a severe late fee and the possible restriction of future transactions and the risk of potential cancellation of the card.
4. **Amex Card:** International visa and master cards are commonly used by travellers to bear their expenses on their trips. Believe it or not, most travellers finance their trips with their business credit cards. One of the major reasons because of why this practise has become common among travellers is currency. It becomes difficult for travellers to go to currency exchange bureaus and exchange their currencies at very low rates. Therefore, when American Express was founded in 1850, its growth was very rapid because of the demand of international travellers for American Express cards.
5. **Master Card Worldwide:** Master Card Worldwide is a multinational corporation based in purchase, New York, the U.S. Throughout the world, its principal business is to process payments between the banks of merchants and the banks of purchases that use its Master Card brand debit and credit cards to make purchases. Master Card Worldwide has been a publicly-traded company since 2006. Before its initial public offering, Master Card Worldwide was a membership organization owned by the 25000 financial institutions that issue its card.
6. **Master Card:** A smart card is a plastic card embedded with a computer chip that stores and transacts data between users. This data is associated with either value or information or both and is stored and processed within the card's chip, either a memory or microprocessor. The card data is transacted via a reader that is part of a computing system.

## Plastic Money



# Digital Payments 2020

The Indian digital payments industry is set to grow 10 times by 2020. According to a survey by Google and Boston Consulting Group (BCG), around 66% users have cited convenience as the primary factor for making digital payments. Here are the key findings:



## Review of Literature

Manpreet Kaur (2017) has studied his research that demonetization is a memorable experience and is going to be one of the economic events of our time. Its impact is felt by every Indian citizen. Demonetization affects the economy through the liquidity side. Demonetizing is a progressive shift to a cashless economy with a greater focus on electronic transactions is being used. The rising use of credit/debit cards, net banking and other online payment mechanisms will be another positive effect of demonetization, as these would not only lower transaction costs but some of these could help earn some fee income as well.

Tax Research Team (2016) in their working paper stated in favour of demonetization its main objective is to analyse the impact of demonetization on the Indian economy. This paper shows the impact of such a move on the availability of credit, spending and level of activity and government finances.

P. Manivannan (2013) in his research paper “Plastic Money a way for cash Less Payment System” examined that Plastic Money which is the usage of Debit cards and Credit cards was measured as a luxury, and has become needed.

Zandi et al. (2013) have studied in the research whether the long-term shift to credit and debit cards stimulates economic growth in 56 countries worldwide. They discovered that electronic card payments can increase efficiency and boost the consumption of the economy.

Mieseigha & Ogbodo (2013) Moreover, the adoption of electronic transactions is essential for transparency, accountability and reduction of cash-related fraud. This will lead to fundamental elements of economic growth and development.

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 cash-based toward a cashless (electronic) payment system. This will help reduce currency management costs, track transactions, check tax avoidance/fraud etc. enhance financial inclusion and integrate the parallel economy with the mainstream.

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.

Annamalai, S. and Muthu R. Iiakkuvan (2008) in their article “Retail transaction: Future bright for plastic money” projected the growth of debit and credit cards in retail transactions. They also mentioned the growth factors, which leads to its popularity, and important constraints faced by banks and summarized with bright future and scope of plastic money.

Jain, P.M (2006) in their article “E-payments and e-banking?An Analysis of Growth Pattern of Cashless Transaction System”. Taking the fullest advantage of technology, quick payments and remittances will ensure optimal use of available funds for banks and financial institutions. He also pointed out the need for e-payments and modes of e-payments.



## Objectives

1. Awareness of small and medium-sized retailers regarding digital payment and their attitude towards cashless transactions.
2. Benefits and problems of using the digital payment method.
3. To assess the customer trust and confidence in Cashless Transaction System.

## Research Methodology

The study is based on secondary sources of data/ information. Different books, journals, newspapers and relevant websites have been consulted in order to make the study an effective one. In addition to this, my personal observation has also been significant to strengthen this study. The study attempts to examine the effect and impact of demonetization on the Indian economy as well as the strategic decision of the Indian economy to become cashless.

## Advantages of Cashless Economy:

- **Reduced Tax Evasion:** Reduced instances of tax avoidance because it is a financial institutions-based economy where transaction trails are left. Reducing the use of cash would also strangle the grey economy, prevent money laundering and even increase tax compliance, which will ultimately benefit the customers at large.
- **Curbs Black Money:** It will curb the generation of black money and will reduce real estate prices because of curbs on black money as most of the black money is invested in Real estate markets. Usage of cashless mechanisms would also ensure that loopholes in public systems get plugged in, and the intended beneficiaries are able to avail the benefits.
- **No more bulky wallets:** We can get rid of those bulky wallets. Deposit your cash into the bank and join the millions who are enjoying the ease of digital transactions using credit cards, debit cards, mobile wallets, UPI apps and USSD Banking. Having these also means that you don't need to stand in the long queues of ATMs anymore. Just swipe your plastic money or flash the QR code while making payments for your purchases.
- **Ease of Transactions:** Once you get hang of the digital payment and transactions system, you are sure to become a fan of online shopping. Digital and cashless transactions have paved the way for e-commerce where you can shop for any object right from the comfort of your home.
- **Easy way to Track Spending:** Cashless transactions executed digitally have this unique feature of leaving a trail. Most times this is done through the indigenous technology of the humble SMS. Also, if you decide to go cashless, then you can easily track your spending through the various statements that you receive from your bank and wallet operators at the end of the month. This way you will exactly know where your money went and kick it away.

- **No hassle of Odd Change:** Well, as an Indian, a major benefit of going cashless would be to not worry about the odd change. The beauty of cashless transactions is that you can make the exact payment to the last paisa, be it 0.90 Rs. or 0.01 Rs.
- **Less Risky:** Imagine a situation where you are travelling a broad and all of your cash gets stolen. You are stranded in an alien nation with no money. What will you do then? Cash once stolen hardly ever comes back. The money is lost forever. But if you get robbed of your debit or credit cards, you can easily block them remotely and be assured that you will face no loss of money. That is a major plus of going cashless. With the continuous improvements being made to financial digitization technology, soon we will have cards which will be enabled by our biometrics, and then it will become extremely difficult for anyone to rob us of our hard-earned income.
- **Cleaner and Greener:** While this reason may not amount much, going cashless does contribute to a cleaner and greener country. More people joining the cashless revolution would mean a reduction in the volume of paper money to be produced. This would definitely help the environment and our surroundings as less paper requirement would mean lesser trees being cut. Going cashless would mean coming in contact with less of such unhygienic currencies. Thus, we see it makes one truly healthy, wealthy and wise.

#### **Disadvantages of Cashless Economy**

- The biggest disadvantage of the cashless economy is that not everybody has the knowledge of doing digital transactions and hence its reach is limited to urban and semi-urban centres only therefore it is very difficult to implement a cashless economy in the big country where many sections of the society in rural areas is illiterate and poor. Hence the lack of proper infrastructure and education among citizens about the cashless economy is a concern.
- Another disadvantage of the cashless economy is that although it is easy to do digital transactions at the same time it is very risky as compared to cash-related transactions. Hence people having half-knowledge of digital payments are exposed to cyber fraud and lose their hard-earned money to online scams and hacking of bank accounts hence it is better to do cash transactions rather than doing digital transactions if one is not fully aware of the online medium of transactions.
- Another demerit of the cashless economy is that digital mode of payments like the credit card, wallet payments, and internet banking involves some transactions fee which is not the case with cash transactions hence any individual thinking of doing online transactions will take into account these transaction costs and will not favour online medium of transactions. Hence the presence of transaction costs is a hindrance to a cashless economy finding acceptance among the people of the country.

### Cashless Challenges in India

There are many challenges facing the introduction of a cashless system of payment in the Indian economy. They are as follows:

- **High Cash Dependency:** India has a high cash penetration in almost all of its transactions that happen as B2C transactions. India's Gross Domestic Product (GDP) contracted by 7.3% in 2020-21.
- **Lack of Digital Infrastructure** is a major hurdle in setting up a cashless economy. Inefficient banking systems, poor digital infrastructure, and poor internet connectivity. The remote areas still do not have the banks at their doorstep. There are no ATM facilities in the remote areas. In 2014, there were just 18 ATMs and 13 commercial bank branches for every 100, 000 adults – in comparison; the number in Brazil was 129 and 47 respectively. From 2015 to 2020, debit cards grew twice as fast as the number of POS terminals and the number of ATMs has increased only 20% from 1.70 to 2.02 lakh, and a stand-off between banks, ATM companies and cash logistics firms on sharing costs are holding back investments. The banks need to be fully equipped to handle the surge in e-transactions.
- **Financial Inclusion:** About 60% of the country's population has bank accounts. Still, a large number of people is not having bank accounts. More than 228 million accounts were opened under PMJDY (Pradhan Mantri Jan Dhan Yojana) scheme until July 2016. 252 *Inspira- Journal of Commerce, Economics & Computer Science: Volume 04, No. 01, Jan.-Mar., 2018*
- **Cyber Security Issues:** Another mounting challenge in digital payments is cyber security issues, with the magnitude with which digital transaction-taking place after demonetization the risk of online fraud, leakage International Journal of 360 Management Review, Vol. 07, Issue 01, April 2019, ISSN: 2320-7132 524 of confidential information, cyber-crimes, malware and virus attacks has been raising. This is the biggest concern to deal with in order to popularize digital payments.
- **Low Literacy Rate** hinders the accessibility of banking services. Citizens should not only know how to read and write but also possess basic ICT literacy to fully enjoy the benefits of e-payments.
- **Costly Swipe Machines:** Swipe machines are also not subsidy-free. Rich shopkeepers can only afford it. It cannot be expected from an auto driver or a normal grocery seller to afford swipe card machines. Besides, many street vendors and shopkeepers do not know how to use swipe machines.
- **Few Banks in Villages:** There are less bank branches in villages. More the banks, more the cash deposits in accounts. Banks in villages should be helpful in teaching the residents the process, usage and benefits of plastic cards. A cashless economy helps in curbing the generation of black money.
- **Reduce The Cost of Printing Money:** Printing money is the direct cost that affects the bank (Reserve Bank of India). In the cash system of the economy where a maximum number of people will work on the cash transaction, the government has to produce more and more cash notes.



- **Safe and Secure:** Both it is safer for banks and customers as well; it keeps a high degree of secrecy. If stolen, it is easy to block a credit card or mobile wallet remotely.
- **Improved Economic Growth:** Shopping online gets easy as one can use a number of payment options; from credit and debit cards to net banking. In addition to this, going cashless also has health benefits. With physical currency, the chance of spreading germs is more.
- Control of Black Money and check for Anti-money laundry. Even transactions can be done through e-banking but it can be traced while it is very difficult to trace the transactions in cash. There is certainly a check also in depositing and withdrawing money through bank accounts. Hence, it will definitely control black money and money laundering in the days to come.
- **Higher Revenue:** A derivative advantage of transparent transactions is collection of tax will increase. This generates higher revenue for the government, this, in turn, will be converted into public welfare policies and schemes.
- **Saves Money and Time:** Presently banking is required a good number of staff to attend to and redress the complaints at different stages. They can reduce costs, as they no longer need the manual accounting work to be done.
- **Transparency:** It is not just the easiest way to transact but also brings about a lot more transparency in the financial system, which helps to curb the generation of black money.
- **Reduced Red-tapism 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. International Journal of 360 Management Review, Vol. 07, Issue 01, April 2019, ISSN: 2320-7132 526
- **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.

## Conclusion

The need to move towards a cashless economy in India is immense. Firstly, it will save a huge amount of money that is spent annually on printing and maintaining currency. Currently, less than 1% of all consumption expenditure is incurred through cashless instruments. The arrival of malls, multiplexes, online shopping stores and shopping complexes encourage the customers to make use of plastic cards. The government needs to take the necessary steps and make some policy considerations when they are preparing for a cashless economy. The payment systems have to be protected from cyber-attacks. Going cashless provides a lot more benefits than just convenience to people, businesses and the government in particular. Increasing use of electronic payments boosts consumption and GDP. These moves by the Government along with the implementation of the GST will eventually make the system more accountable and efficient. The whole demonetization scheme was considered a good initiative but lacked in the

implementation part. This impacted the whole of the Indian market especially consisting of the unorganised sector where the majority of dealings take place in cash. There was a huge fall in the demand due to liquidity and unawareness of digital payments. Organisations benefiting from this scheme were the payment intermediaries like Paytm and e-wallet apps as there was no option left for the customers and retailers to make the dealings. It was also a good initiative to make India move to warda cashless economy and curb the problem of unaccounted incomes, counterfeit notes and illegal transactions. The cashless transaction system is reaching its growth day by day, as soon as the market becomes globalised and the growth of the banking sector more and more people move from cash to cashless system. The cashless system is not only a requirement but also a need of today's society. All the online market basically depends on a cashless transaction system. The cashless transition is not only safer than the cash transaction but is less time-consuming and not the trouble of carrying and trouble of wear and tear like paper money. It also helps in the record of all the transactions done. So, it is, without doubt, said that the future transaction system is a cashless transaction system.

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