

Indian Economy and Cashless Transactions: A Critical Study

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Abstract

In an unprecedented move by Prime Minister of India Narendra Modi, on 8 November, 2016. Demonetized the currency notes of Rs. 1,000 and Rs 500. According to the Government official statements, the aim of the demonetization process is to end widespread corruption, eliminate black money, encourage cashless transactions and make the informal sector more accountable. After the event of demonetization in India, many major changes are being seen in the Indian economy. Cashless transactions are also one of those changes. The Indian economy, which is heavily dependent on cash (more than 90% of the transactions are done on cash), caused large cash shortage in the economy. To bring the economy back on track, it was necessary for the government to promote a cashless economy, as there is a need for an alternative to cash to end the crisis arising out of cash crunch. But a big part of the population in India is still deprived of the banking culture, in such a scenario, the future of cashless transactions in the Indian economy has been studied in this paper. In this paper an attempt has been made to outline the concept of cashless transactions, its various means as well as opportunities, future challenges and possibilities of cashless transactions in the Indian economy.

Keywords: Demonetization, currency, government, informal sector, Indian economy, cashless transactions

Introduction

Cashless transactions are not a new concept for us, the trend of selling and buying goods through barter system was an early form of cashless economy. Most of the transactions in India's modern economy before 8 November 2016 were cash based because most people are illiterate, poor, engaged in small transactions and have little banking habit. For whom Cash is the most convenient and easiest means of exchange. Since cash transactions are instant and no intermediaries are involved, cash provides liquidity to individuals and households. But on 8th November 2016 when Indian currency is Rs 500/- and Rs 1000/- demonetization. After the demonetization, a new trend of transactions came into existence, which is known as cashless economy. Initially it is becoming popular only among those who are educated and know its benefits. But now it is becoming a common trend.

Study Method

The choice of research method depends on the nature of the research. Since the nature of the present research is descriptive, therefore secondary data has been used for the research. Secondary data has been compiled using various sources like published books, articles published in various magazines and newspapers, journals, conference reports, working reports and websites, etc. The methodology of research is basically descriptive in which historical method, material analysis, library study method etc. have been used as auxiliary methods.

Objective of the Research Paper

1. To introduce the basic concept of cashless transactions.
2. Outlining the various modes of cashless transactions.

3. To highlight the positive and negative aspects of cashless transactions.
4. Outlining the future challenges and possibilities of cashless transactions.

Meaning of Cashless Transaction

Cashless transaction means economic transaction of goods and services without cash. In other words, cashless transactions mean all those transactions in which cash is not used as payment for the purchase of goods or services. Buyers and sellers transact goods and services in a cashless form and instead of cash, in these transactions, payment is made and received with the help of cheque, draft, debit card, credit card, mobile banking, etc.

Thus a cashless economy can be defined as a situation where the cash flow in an economy is negligible and all transactions are carried out through electronic channels such as credit cards, debit cards, systems Electronic clearing as Immediate Payment Services (IMPS), National Electronic Funds Transfer (NEFT) and Real-Time Gross Payments (RTGS).

Mode of Cashless Transactions

There are many modes of cashless transactions in India, some of the major mediums are as follows:-

- Payment by check or draft
- Plastic money
- Net banking
- Mobile wallet
- Unified Payment Interface
- Payment by USSD technology
- Payment by payment bank

- Payment by Micro ATM

Advantages/Positive Aspects of Cashless Transactions:-

1. Transparency in Transactions

Cash based economy has substantial potential for generation of black money, whereas transactions done through electronic transactions or plastic money always leave a digital proof for both the taxpayer (consumer) and the tax collector (Government). Make cashless transactions easier to track and transparent, it will curb black money generation with cleaner and more transparency in commercial transactions and money transfers.

2. High Revenue

India's informal economy contributes 45% of the country's GDP and 80% of employment, a huge number. This means that transactions worth thousands remain unaccounted for and are not subject to tax. In cashless transactions, data proof of every transaction is there, in which tax evasion is a difficult task and this will also reduce the incidence of tax evasion. Therefore, cashless is proving helpful in increasing revenue by reducing tax evasion.

3. Prevention of Corruption

In cashless, every transaction is recorded. Therefore, the government can easily check these practices whenever it wants, as a result cashless can prove to be helpful in preventing corruption.

4. Reduction in the Cost of Currency Issue

The logistics and supply chain of cash are the predictors of the prosperity of any treasury. Printing, storing, transporting, distributing cash and understanding counterfeit currency in a developed economy requires a large amount of money. Due to cashless, currency does not need to be issued in large quantities, so cashless can reduce the cost of currency issuance.

5. Stop Terrorism

Since most extremist activities are fueled and funded by black money, hence the high circulation of cash and black money encourages terrorist and Naxalite incidents. With the help of cashless, it becomes easy to rein in these too.

6. Hygiene

This aspect becomes even more important after the corona pandemic. In India, the circulation of dirty and tobacco stained notes filled with germs is common. With physical currency we are more likely to germs in the form of rupee banknotes in daily life. This can be avoided if we move towards a cashless economy. Reducing the amount of physical/paper money used will reduce the transmission of germs.

Downside/Challenges of Cashless Transactions

1. Rural majority Demographics

Most of the population of India still live in villages and farming is the lifeblood of the Indian economy. Since Indian agriculture is a cash based business, the entire process of agriculture i.e. from sowing to harvesting is cash intensive. In such a scenario, suddenly implementing cashless without prior preparation can prove to be a suicidal step for Indian agriculture. While the next generation is glued to their phones and devices, most of the farmers in India are illiterate or literate, so it is not easy for them to use technology. As a

result, while on one hand the growth rate of digital payment in the agriculture sector has been very slow, on the other hand, the farming class is facing a lot of problems due to lack of cash.

2. Urban Unorganized Sector

Cashless system in the rural economy of India, most of the transactions have not been successful due to cash-intensive and weak infrastructure in rural areas. It has emerged from the survey that cashless transactions in India are limited only to big cities. But in big cities, most of the workers are employed in the unorganized sector, which work only on the cash based system, so the cashless system has not been completely successful.

3. Cyber Security

Cyber security is the most worrying issue with respect to the cashless economy. Nowadays card cloning, PIN theft has become a common practice. Now new threats are also emerging like hacking, theft of data in bulk and ransom ware etc. At present, even the data of the call center, bank is not secure, in such a situation how can the common man be assured? In October 2016, over 30 lakh debit card details and PIN details may have been leaked, prompting customers to change their ATM-cum-debit card PINs. Such incidents clearly show the weakness in our cyber security. With the passage of time, concerns regarding online security are also increasing, which is weakening the public's confidence in the cashless economy.

4. Network Connectivity Problem

After the announcement of demonetization in India, people are trying to make more use of card transactions to avoid hassles. The sudden spurt in card transactions in the economy has created network connectivity problems. When the card machine stops working due to network overload, many people faced trouble while standing in line to make payment at the shop. Statistics show that the network speed in India is much slower than the neighboring countries. Good speed is required to do most of the cashless transactions, but due to slow internet speed in India, customers are facing problems like session time out, payment held, internet disconnect, network error, OTP not received on time etc. falls. Thus the problem of network connectivity is a major challenge towards cashless in India.

5. High Cost of Internet

While there is no Wi-Fi in public places in India, on the other hand the cost of internet in India is still very high. Since e-wallets also need internet connectivity, people have no other way to connect if they do not recharge their monthly data packs to make online payments. Thus it is clear that the high cost of internet in India is also a big challenge in the way of cashless India.

Future Prospects of Cashless Transactions in India

Currency has been changing with the passage of time, till yesterday the currency kept in the wallet has come in digital form in the mobile of all of us. The pace of cashless in India has been slow in the initial phase, but now it is growing at a fast pace. Earlier, all transactions were done in cash, now accepting digital payments from shopping malls to tea bags is a sign of change. Easy, simple and secure payment process helps drive behavior change and quicker adoption of virtual bills and banking in non-banking sectors. Increased

competition and strategic cooperation between existing players and new players in the market, such as banks and smaller wallets, will help increase adoption and drive innovation, innovation and consumer choice. As a result, companies are now migrating to smaller towns and villages.

As new players enter the market, every market is slightly different and with different business models, increased competition will help the business environment and provide consumers with more choices. Choose more to choose from. A living example of this is Reliance-Jio, after which a new era of Internet of India has started. The continuous increase in the number of internet users, the availability of services through internet apps of Indian banking, as well as the rapid growth in prepaid cards, digital wallets, internet banking, etc. can be considered a good sign for the Indian economy. Cash continues to dominate the Indian payment system, with much less spending through credit cards than in developed countries. Hence there is immense potential for the development of credit cards. With the rapid development of smartphones, the penetration of internet and e-commerce not only seeing a boom in transactions through debit cards but also witnessing a consistent boom in debit card activation and usage, this trend is expected to continue. Therefore, there is no doubt that the coming time will bring a better future of cashless in India.

Conclusion

It is clear from the above discussion that there has been a big change in the mindset of the people towards digital transactions. People are now adopting 'Wallet on Delivery' instead of 'Cash on Delivery'. Society also has a dual responsibility. On one hand they need to understand the importance of a cashless economy and on the other hand they have to appreciate the measures taken by the government. Also, while preparing for a cashless economy, the government should make necessary advance preparations and give some policy considerations. Some of the major challenges facing cashless transactions are cyber attacks on payment systems, access to an electronic system for every individual in the society, lack of overall infrastructure, etc. Without removing these basic weaknesses, India cannot become a cashless India. It is true that we cannot imagine a 100% cashless society with the existing infrastructure, but we can start with small digital payments.

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