

Cash to Cashless Economy: Opportunities & Challenges in India

Mrs. Rajni Narvariya¹, Dr. Deepak Singh²

¹Research Scholar, Jiwaji University-Gwalior Madhya-Pradesh

²Assit Prof. in Commerce Dept. Aryansh College of Arts & Management-Gwalior, MP

ABSTRACT:

Cash may be defined as the legal common way for all kinds of material transactions in an economy. In a highly unorganized economy, the circulation of currency notes without disclosing of its actual income to appropriate authorities provides enough scope for the accumulation of black money in the hands of people as well as the circulation of duplicate currency notes. So, it is necessary to promote digital transaction & plastic money in order to track all the payments and income sources of people. Cash use doesn't seem to be waning all that much, with around 85% of global payments still made using cash. The main reasons are that there is nothing to truly compete with the flexibility of notes and coins. Indian governments also inclined to transform the Indian banking system from traditional branch-based practices to technology-driven cashless banking. And for this it provides enough opportunities such as increasing mobile & internet penetration, raising disposable income, ensuring various lifestyle, urbanization, increasing foreign investment and latest economic and taxation reforms, etc. to accelerate digital transactions but we have to encounter a number of challenges also like poor internet connectivity in rural areas, digital literacy, cybersecurity issues, highly fragmented unorganized economy, etc. Now we can conclude that we have initiated such measures which will pave the way for such a digital transformation of the Indian economy.

KEYWORDS: Cash, Cashless Economy, Opportunities, Challenges.

01. INTRODUCTION

Cash is the lifeblood of any economy. We can't expect any economic activity without cash. Cash may be defined as a legal medium through which all the transactions took place in an economy. The Government has implemented major changes in the economic environment by demonetizing the high-value currency notes of – 500 Rs & 1000 Rs at 8th-Nov 2016 and exert force on India towards a cashless future. Cashless economies are a situation in which the flow of cash within an economy is not available and transactions are done through electronic media channels such as direct debit, credit and debit cards, and electronic clearings and payment systems such as Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS). The Indian economy continues to be driven by the use of cashless than 5% of payments happen electronically. Electronic-based transaction wants to drive the development and modernization of India's payment system. In India, the ratio of cash to gross domestic product is 12.41 % in GDP; this is the highest in the world. It was 9.48% in China or 4 % in Brazil. Further, the number of currency notes in circulation is also far higher than in other large economies, India had 76.48 billion currency notes in circulation in 2012-13 compared with 34.5 billion in the US.

We are the 4th-largest user of cash in the world. The rate of cash to GDP is the highest, i.e. 12.41% in India. Cash in circulation to private consumption ratio in India is 20% and Card transactions account for 4% of the personal consumption expenditure. As most of the people are illiterate, poor, engaged in small transactions and having less banking habits. PM Narendra Modi unveiled two schemes – Lucky Grahak Yojna, DigiDhan Vyapaar Yojna for customers and traders like to promote mobile banking and e-payments. Usually, cashless economies have low corruption and less black money. Almost every country is bracing towards a cashless economy and many countries have made significant progress. It is just a world trend which India is trying to catch up.

02. SIGNIFICANCE OF THE STUDY

This paper discusses the current scenario of Cashless India after demonization. It also strives to describe the focuses on the impact of devaluation on our economy, counterfeit currency, and challenges towards a cashless economy.

03. RESEARCH METHODOLOGY

The prepared paper is a descriptive study of nature. The study has been carried out based on the collection of the relevant secondary data. Secondary data collection was based on various sources such as published books, articles published in different journals & newspapers, periodicals, conference papers, working papers, and websites, etc.

04. MEANING & DEFINITION OF CASHLESS ECONOMY

Cashless Economies can be defined as a situation in which the cash flow within an economy is not available and transactions must be through electronic channels such as debit cards, credit cards, electronic clearing, & payment systems (Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS)) in India.

In a cashless economy, the third party will be in controlling your money. He would allow you to transact that money whenever it is needed. If it is not needed then the third party can use that money. The third party can be a government or any other public or private sector bank.

05. OPPORTUNITIES IN INDIA

Increasing Internet Penetration: Internet penetration in India is continuously raising in the last three years. According to a report published by the Internet & Mobile Association of India and the market research firm IMRB; mobile internet users reached approx 420 million by June 2017. And the proportion of data components raised from 45% to 65% within a short period of five years. Further launching of Reliance Jio last year and other telecom companies come up with affordable data packs continuously increasing internet penetration in India. Due to increasing internet penetration Indian banks continuously increasing their technological infrastructure to provide innovation, affordable, user-friendly services to enhance consumer experiences and gain competitive advantages. Internet and mobile banking gaining a rapid foothold in the Indian economy especially in the last one year. Digital payments touched Rs. 200,251.32 billion in May 2017 as compared to 176,001.51 billion in May 2016. Digital payment mechanisms such as RTGS, Retail Electronic clearing, Prepaid installment payments, cards, m-wallet, interbank & intra banking transactions are continuously gaining momentum in the last one year. Indian customers are now shifting from traditional branch banking to internet banking due to ease and

convenience around 44% of users are using net banking, it emerged as the favorite mode of payments among internet users in India.

Increasing Smart Phones Penetration: The availability of low-cost smartphones coupled with affordable internet data packs Indian consumers are shifting from feature phones to smartphones. The number of smartphone users in India is estimated to reach 279.24 million by 2017. The demand for smartphones has reached its saturation point in Tier-1 cities whereas as it is continuously raising in Tier - 2 and Tier-3 cities and rural areas. Indian banks including public sector banks are committed to providing mobile banking facilities and all most all banks have their own m-wallets which are linked with their debit or credit cards remove the hindrances of carrying physical cash in their hands. The volume of transactions through m-wallets from rose from 50.31 million in May 2016 to 241.72 million in May 2017 this is an unprecedented growth rate of 380.51% according to Reserve bank of India Estimates. Increasing use of smartphones significantly contributed to transforming Indian banking from traditional branch-based facilities to technologically driven mobile / internet-based facility. India holds 4th ranks across the globe in the adoption of mobile banking facilities.

Technological Innovation in Indian Banking: Increasing mobile penetration, overcrowded bank branches, need of 24* 7 banking facilities with ease and convenience, increasing urbanization, organized retailing, raising education levels, raising income level, changing the lifestyle of Indian customers forced Indian banks to develop technological infrastructure for its customers. Indian banks are inclined to develop digital banking facilities at various levels form back – office processing, convergence, IT-enabled business process reengineering as well as communication with its customers in the last few years. Indian banks currently devoting 15% of their spending on the development of technological infrastructure.

Government Initiatives: In the last three years, Narendra Modi leads the NDA government come up with innovative ideas and took several initiatives such as Pradhan Mantri Jan Dhan Yojna with the goal of opening a bank account for every household in order to bring comprehensive financial inclusion in India. We have made a significant achievement by opening 175 million new bank accounts from 2011 to 2014 according to the World Bank report and this further increased to 255.1 million in November 2016. Under the second round of Pradhan Mantri Jan Dhan Yojna 4, 90,000 were identified and allotted for coverage.

Raising Trends of E-Commerce: The E-commerce market in India has grown from \$ 4.4 billion in 2010 to around \$16 billion in 2015 and this further expected to hit by \$76 billion by 2021. The number of online buyers has increased to 90 million in the last three years. Raising trends of online purchasing backed by many forces such as strong value proposition offered by online merchants, proliferating payment platform, strengthening delivery channels, logistics, home delivery, 24*7 active markets, increasing mobile & internet penetration, etc. Increasing penetration of E-commerce also contributing digital transactions in India.

Increasing Urbanization: Trends of urbanization are continuously increasing in the last three years with an annual growth rate of 2%. The urban population constitutes 33.136% of the total population in 2016 in India. Increasing urbanization raising education level, increasing disposable income, changing lifestyle,

increasing mobile and internet penetration shifting the Indian customers towards E-commerce proliferating digital transactions in India.

06. CHALLENGES FOR CASH LESS ECONOMY IN INDIA

Limited Banking Penetration: Limited banking penetration in the biggest challenge, India has comparatively less number of branches in comparison to its other counterparts. Currently, India has 13.5 number of commercial bank branches per 100,000 adult population. Only 40% of the adult population has a bank account, 13% population have debit cards, India is a country of over 600,000 villages but only 5% of village habitats have a commercial bank branch in India. There were 50,554 bank branches in rural areas in 2016 Lack of sufficient banking Infrastructure for such a huge population it becomes a challenging task to promote digital payments where 95% of payments are made physically.

Poor Penetration of Plastic Money: The most distressing feature of the Indian economy is that India has a large no of currency notes as compared to many other large economies. India had 76.48 billion currency notes in circulation in 2012-13 compared with 34.5 billion in the US. According to data released by Reserve Bank of India money in circulation stood at Rs. 17.97 trillion as on 4 November 2016. In this way increase of currency notes in an economy creates demand and supply gaps accelerating inflation rates to new heights. Tracking of transactions and expenditure is not possible in case of the physical exchange of currency notes in the unorganized market. India uses too much cash for transactions. The ratio of cash to gross domestic product is one of the highest in the world—12.41% in 2014, compared with 9.47% in China or 4% in Brazil. In this way, the unaccounted circulation of currency notes creates a ditch between rich and poor people because it provides enough scope for speculative activities in the stock market, real estate, money laundering, etc. This is the biggest hindrance in promoting cashless transactions in the Indian economy.

Unorganized Economy: The Indian economy is a highly indigenous economy more than 50% of the Indian population engaged in agricultural & allied activities, whereas out of the crop production workforce constitutes 75% and 69% in rural and urban areas respectively according to NSS 68th round data in 2011-12. Bank account penetration was just 35% in 2011 which is increased to 53% in 2014 according to the World Bank report. With an objective to bring a larger part of the Indian population under banking facilities, Pradhan Mantri Jan Dhan Yojna was launched in August 2014. Under this scheme till August 2017 the number of beneficiaries was 29.52 crores but 72% Jan Dhan accounts were dormant; this is the biggest hindrance in cashless payments in India.

Cyber Security Issues: Another mounting challenge in digital payments is cybersecurity issues, with the magnitude with which digital transactions taking place after demonetization the risk of online fraud, leakage 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.

Digital Literacy: India is a country of over 6, 50,000 villages with an illiteracy rate of more than 25-30%. Digital literacy is just 10% in India. In the absence of digital literacy, we can't expect the transformation of the Indian economy form the traditional branch-based model to virtually exist cashless economy.

07. CONCLUSION AND SUGGESTIONS

Due to innovation in digital payment technologies and increasing client satisfaction, the growth trends in digital payments square measure positive and can still dominate the payment landscape in the Republic of India. But the biggest challenge in front of the Indian economy is digital illiteracy, inadequate rural penetration of internet connectivity, inadequate banking infrastructure, lack of awareness among rural customers, unorganized indigenous market.

What to do Now: -

I do not want to finish this paper with problems and challenges. This issue needs a lot of brainstorming. There can be many stands alone and/or combined cost-effective and appropriate solutions. Even then, I would like to make a few suggestions, which are neither exhaustive nor fit all types. There further need more deliberations and debate: -

1. Telecom operators must guarantee WAN and last mile Connectivity availability and speed, with penalty clause.
2. Cost of Cashless Digital Transaction (CDT) to payee and payer must be NIL.
3. Government should consider making mandatory all B2B, B2C, B2G, G2B & G2C payment transaction using cashless Digital Transaction (CDT). B2C transaction for small petty expenses below Rs. 500 can be allowed using cash with a certain limit of either daily expenses or turnover. (B=Business, G=Government, & C=Citizen).
4. Web applications and the Mobile app must be simple, user-friendly and secure with robust testing and certification. In the case of failure, the certification agency must be answerable. They must follow the standard front end and have back end standards.
5. The Government must incentivize and promote CDT in Rural areas through Gram Panchayat, Zila Panchayat, etc. There must be some visible benefit to the village, if they go CDT.
6. This must be done using qualified, experienced, specialized & certified impaneled IT Security Auditors. An auditor must be answerable in case of any breach.
7. Indian NGOs with no foreign funding and agenda must be encouraged to create mass awareness and education. RBI or Government can engage, Encourage and fund creditable Indian NGOs for this awareness with accountability and performance parameters.
8. Citizens must be protected from losses in case of loss of money or data or privacy. It can be done using insurance and limiting the liability of citizen with a defined time frame. Insurance companies must be encouraged to underwrite these losses at a predefined premium.

REFERENCES

1. Dr Meenu Jain. (Jan-2014). Globalization and Social Transformation:.. *Indian Experience Research Process International Journal of e-Social Research fundamental*, Vol.1, No.1, PP.120-131.
2. Dr Meenu Jain. (May-2015). Structural Change in the Course of Economic Development: India's Experience,., *Indian Journal of Applied Research Journal*, Vol.5, Issue5, PP 15-17.
3. 10. <http://www.civildaily.com/story/cashless-society/>
4. <http://cashlessindia.gov.in/>
5. <http://google.co.in>
6. [http://wikipedia.org/wiki/Cashless_Transaction_\(India\)](http://wikipedia.org/wiki/Cashless_Transaction_(India))
7. <http://indiabudget.nic.in/es2016-17/echapter.pdf>