ECONOMICAL DEVELOPMENT OF INDIA TO CASHLESS

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ABSTRACT

In the early ancient age, all transactions were cash less and peoples were used barter system that was goods to goods exchange and service to service exchange. Even though all peoples were satisfied, there was a value gap to ensure financial equality. For compensating this value gap, they brought money or cash. Now, it’s a trendy development that we makes digital transactions instead of cash. Not only developed countries but also our developing India is going to cashless. The objective of this paper is to analyze about benefits and challenges of India making cash less. This paper is qualitative in nature and uses only secondary data. The researcher attempts to draw a picture about Indian economy if it became cash less and its consequences.

INTRODUCTION

In many developed countries across the world like USA, residents rely more heavily on cashless, E-money transactions than traditional currency. The word cashless transaction means stopping the people to use money through hands and making them to use it through electronic media or credit cards, bank transfers, checks etc. Recently in India, the central Government of the country led by Prime Minister Narendra Modi has implemented a shock ban on currency notes of higher denominations i.e. 1000 and 500 notes, a move has been executed with the aim to curb the circulation of black money and encouraging the people of India to go cashless and
reduce dependence on cash transactions and instead adopt digital payment methods. Cashless literally means having no cash but in today’s world, it refers to using digital form of payments instead of cash for payment of various expenses or transactions done by the individual. A cashless society is a society where currency notes or cash money are not used in financial transactions. It is a hypothetical move or situation in favor of alternative means of monetary exchange .In the ancient period were Cashless societies in the past based on the barter system where people exchanged their Livestock for food crops or other goods. However, the present concept of a cashless society or country is a new thing or phenomena based on computerized monetary transactions or settlement system. Here, cashless transactions are made with the help of digital currencies like bit coin or settlement system. In a truly cash less society, legal tender (money) is exchanged and recorded only in the electronic digital forms and it causes transparency. During 1990’s , the growing popularity of information technology leads to electronic banking made the use of non-cash transactions and settlements popular among the residents of some of the most technologically advanced nations of the world. Digital payment methods became well estamplished in developed countries across the world by the 2010’s. Online monetary tools like pay pal , NFC payments by smart phones or electronic cards ,digital wallet systems operated by Apple , electronic banking bill payment systems helped on transaction values that can be used to non-electronic payment to encourage cashless transactions . An individual’s money is under external control and is subject to external regulations and restrictions and negative interest rates might become applicable. Also, in a cash less society, individual transactions and incomes will become accessible to legitimate parties like police or tax officials, and chances of hacking also increase. In order to understand this term clearly better let’s look at advantages and dis advantages of cashless economy.

LITERATURE REVIEW

Walter Engert et al, in his paper “Is a cashless society problematic?” describes about impact of cash less society on economy.

Mohemmed Salman in his paper, “Role of Digital Competence in Cashless Economy” explains about necessity of information technology to become a country to cash less.
Kamlesh in his paper, “Impact of Cashless Payment on Economy Growth,” explains about positive and negative impact of cashless transaction.

Preethi Garg and Manvi Panchal in their paper, “study on introduction of cashless society in India 2016. Benefits and challenges”.

**Indian Economy**

India, the land of contradictions and the best example of this would be the existence of two different worlds in the same nation: India and Bharat. While India is tech and Internet savvy, our Bharath is far behind. It even lacks the basic amenities. While India is talking about bullet trains and hyper-loops, one can still find people earning their livelihood from cycle-rickshaws in Bharath. Given such a wide spectrum of disparity, the fact that 90% of our workforce is in the unorganized sector, comes as no shock. And avoiding all these disparities, Prime Minister Modi announced the demonetization of Rs. 500 and Rs.1000 notes in Nov.8th 2016. The demonetization step had both positive and negative impacts on the Indian economy. While many people see demonetization as ‘curbing black money’ as the main goal of the demonetization process, they miss out on the most obvious result is financial inclusion and shift towards a cashless economy. Paytm witnessed that more 5 million daily usage post demonetization as against their average transaction of three million. And it also registered 700% increase in overall traffic, and 1000% growth in the amount of money added to its account in the first two days itself. Similarly Ola Money registered above 1500% increase it its e-wallet.

**India is a cash obsessed economy**

The Indian economy is cash based economy. So that MNC’s like Amazon had to incorporate ‘cash on delivery’, just to be able to tap in to the Indian market. India is the 4 Th largest user of cash in the world. And in this era of technology, this is not only backward, but also unscientific and un-economic.

**Why is moving India to cashless economy**

Cash less economies tend to be less corrupt, and have lesser black money. Let’s examine these reasons in detail.
1. Cash is costly

A significant amount of time and effort is expanded in shepherding them through the system and finally in to the people’s hands. RBI has spent Rs.32.1 billion just for printing the currencies and coins that are in circulation. Add to it the costs of setting up, store, distributing and maintaining ATM’s. Also, paper currency has a shelf life after which it is renewed. It is said that the direct cost of running a cash based economy is above to 0.25% of India’s GDP.

2. Cash drives a shadow economy.

Economic transactions provide anonymity like no other mode of payment unless cash. They’re difficult to track and this leads to many evils, like – tax evasion, black money etc. In 2007, currency in circulation was almost equal to bank deposits, but in the last three years, currency with Indians was more than the bank deposits by 50%. As per government data, the size of black money in India is approximately 15-16 lakh crores. This is unaccounted money and was being used to finance a shadow economy, almost running a parallel government that finances all illegal transactions. Most of this cash used for financing terrorist activities illicit funding for election, purchasing political decisions, betting, trafficking, and for hijacking democracy.

3. Future rewards: Financial inclusion + Increased tax revenue

A cash less or a digital economy will require all the residents to have a bank account. This will lead to higher financial inclusion rates and will also help build a bridge between Bharat and India. Also, since digital transactions can be easily tracked, the incidences of tax evasion will reduce drastically and in the long term will help the common people in terms of better implementation of government policies.
Advantages of Cashless Economy:

1. Easy to handle: The first and foremost advantages of cashless economy is that an individual does not need to carry cash with him or her everywhere he or she go which in turn reduces the chances of theft from wallet reduces in conveniences due to carrying cash, give freedom from problem of change when transaction is of odd amount, no risk of receiving counterfeit currency and so on.

2. Easy to track black money: Another advantage of cashless economy is that it is easier to track the black money and illegal transactions because if cash is used directly for doing transactions than it is not easy to track the transactions as the money does not come in to the banking system however in case of digital transactions as all records are there with the banks which result in more transparent transactions which in turn leads to fall in corruption in the economy of the country.
3. Reduce crime rates: We are seeing the impact of cashless economy on the society when it comes to crime rates. According to Union defense minister after demonetization the crime rates in Mumbai has dropped to half. Not just Mumbai but Delhi is seeing a substantial decline in crimes related to financial motive. Bank robbery, burglary, extortion etc. are declining because of demonetization.

4. Financial Inclusion: Digital economy will help to enhance our current banking system. There will be increased access to credit for people who did not fall in any banking network. Financial inclusion will automatically reduce poverty.

5. Increase the tax net: All the transactions that are done can be monitored and traced back to a given individual. If officials from tax department smell something fishy then they can trace the money transaction back to the individual. Hence it will be really difficult for someone to evade tax. Increasing tax net is very important for any government.

6. Boost in consumption: There would be no incentives for people keeping money in the bank. So they would love to spend on things that they like. It will help to boost consumption that is really good for any economy. More jobs will be created and income level of people will rise.

7. Security and convenience: Last but least is security and convenience. You don’t have to carry a wallet with money in it. You just use your mobile phone or credit card for transaction. It is very hassle free and already going on in urban areas of the country.

**DISADVANTAGES OF CASHLESS ECONOMY**

1. The biggest disadvantages of the cash less economy is that not everybody has the knowledge of doing digital cash transactions and hence its reach is limited to urban and semi urban centers only. Therefore it is very difficult to implement cashless economy in India. The big country where 70% of the area remaining as rural area is illiterate and poor. Hence the lack of proper infrastructure and education among all rural citizens is disadvantages as far as the cash less economy is concerned.
2. Another disadvantages of the cashless economy is that although it easy to do digital transactions but at the same time it is very risky as compared to cash related transactions. So rural people having half knowledge of digital payments are exposed to cyber fraud and losing their hard earned money to online scam and hacking of bank accounts and hence it is better to do cash transactions rather than doing digital transactions if one is not fully aware of the online medium transactions.

3. Another challenges of cash less economy is that digital mode of payments like the credit card, wallet payments, internet banking involves some transactions fee which is not the case with cash transactions and hence the any individual thinking of doing online transactions will take in to account these transactions costs and will not favor online medium of transactions. So the presence the transaction cost is hindrance to cashless economy finding acceptance among the people of the country.

4. Law net coverage in rural areas and should have a smart phone.

5. Have to trust Government or Third party: If the cash less, there is no cash our hand. All the money is digital so either they are in control of banks or government or any other third party and have to trust government or bank blindly because everything is under their possession. This is could be scary because if it tomorrow something happens you will be left with no hard cash.

6. Reduced Liquidity means bad for certain sectors. There are certain sectors which depend upon high level of transaction. Sectors like Real Estate, Jewelry, retail industry, restaurants an eating joints, cement and other SME will be affected badly because of cashless society. It means a lot of people who are employed by these sectors are also going to be affected.

7. Really bad for poor: Still people in India struggle to meet their basic needs like food, cloth and shelter. Over half of the population does not fall in any banking network. They still have to depend upon hard cash for meeting their basic needs. Recently over 80 people have died because of demonetization. You can imagine the impact if country decides to go completely cashless.

As everyone can see from the above that cashless economy has advantages and as well as disadvantages and any government thinking of adopting cashless economy model should
carefully analyze the merits and demerits and then take the decision as the cashless economy cannot be imposed on the people rather it can be gradually adopted by the people of the country.

MOST POPULAR TEN DIGITAL PAYMENT METHODS

The Digital India program is a flagship program of the Government of India with a vision to transform India into a digitally empowered society and knowledge economy. “Faceless, Paperless, Cashless” is one of professed roles of Digital India. As part of promoting cashless transactions and converting India into a less cash society, various modes of digital payments are available. These modes are:

1. **Cheque:**

   The cheque is one of the oldest methods of cashless payment. It is a known method to everyone. In this method, you issue a cheque for the specific amount to someone else. The cheque gets deposited in the respective bank and the bank processes a payment through a clearing house.

2. **Demand draft:**

   Demand draft is another way of cashless transaction. It is a safest option to receive payment from anyone. Demand Draft (DD) never gets defaulted as it is signed by the banker. The disadvantages of DD and cheque are you need to visit the bank in order to deposit cheque and DD and takes additional time.

3. **Online Transfer-NEFT and RTGS.**

   The third simplest method for the cashless transaction is online transfer using NEFT or RTGS. In order to do online money transfer, you need internet banking facility. Online transfer using NEFT and RTGS is comparatively faster than cheque or DD. Online transfer can be done from anywhere using internet facility.

4. **Credit card and debit card**

   Credit card and debit card is another cashless payment method. The usage of credit card and debit card was limited in India. However, usage of credit card and
debit card is increasing now. The limitation of this payment method is an availability of swipe card facility (PoS) at merchant end.

5. **E-wallets**

E wallet is next cashless payment option E-wallet can be used to purchase products starting from grocery to airline tickets. In order to use E-wallets customer and merchants, both require a smart phone with active internet connection. The most example of E-wallet is PayPal. Apart from PayPal, you can also use Pioneer, Transfer wise, skill, and payza.

After registering for E-wallet you need to link your credit card or debit card with your E wallet ID. You can use E wallet for fund transfer or online shopping. It is a simplest cashless method.

6. **Mobile wallet**

The next cashless payment method is a mobile wallet. You do not need a debit card, credit card or internet banking password for making payment using a mobile wallet. Just load money in your wallet via IMPS and use it on the move. You can download mobile wallet app from play store. Few examples of mobile wallets are paytm, payUmoney, oxigen, lime, MobiKwik, etc.

7. **UPI Apps**

UPI is a mobile payment system which allows you to do various financial transactions on your smartphone. UPI allows you to send or receive money using virtual payment address without entering bank information. Merchants can enroll with banks to accept payment using UPI. Like in the case of a PoS machine, the merchant would require a current account with a bank to accept UPI payments.

The examples of few UPI Apps are SBI Pay, ICICI pocket, Axis Pay UPI App, Union bank UPI App, PNB UPI App, Phone pe, Tranzapp etc

8. **Gift Card**

The next cash less method payment are gift cards. Gift card is a readymade card and can be purchased from a merchant or from the bank. The Gift card is loaded with a fix amount of cash you can purchase any item from the specific vendor by using a Gift Card.
9. Adhar enabled payment system

Adhar enabled payment system (AEPS) is one of the best cashless system and it is like a micro ATM. It uses smart phone and fingerprint scanner for the transaction. In order to use this facility, it is mandatory to link your Adhar card to your account. You can use AEPS inorder to perform transaction like Adhar to Adhar fund transfer, cash withdrawal, cash deposit etc.

10. Unstructured Supplementary Service Data (USSD)

You can use USSD cash less method if you don’t have a smartphone or internet connection. USSD is mobile banking service. From any mobile phone you can dial *99# and use this service. You can do this all things which are available to a person with smart phone and internet connection. Almost all banks including SBI, ICICI, BOB, Axis and PNB support USSD payment option.

How far are we from becoming a cashless society?

Before we dream of becoming a cash less economy we have to face many realities. Here are some of them.

1. **Half of the population does not fall in any banking system.**

50% Indians are not covered by any banking system so how you can think of cashless economy.

2. **Limit internet penetration.**

In India there are over 350 million internet users. The internet penetration rate is just 27% which is very low compared to countries like Nigeria, Kenya, and Indonesia etc. It has to be at least 67% of global median.

3. **Limited smart phone penetration.**

Only 17% of Indians use smartphone which is very low if you want, to become a cash less economy.
4. **Limited smart phone with broad band connections**

   Only 15% of Indians have internet connection on their smartphone. So it will be only 154 million people with broad connection on their smartphones.

5. **Internet speed**

   The internet speed loading is very slow in India. The average page load time is in India is 5.5 seconds whereas China is just 2.6 seconds.

6. **Limited PoS Machines**

   PoS machines (Point of sales) are used for any cash less transactions. In India there are only 1.46 million Pops machines. It means only 856 machines per million people which is very low compared to China where it is 4000 per million people.

   After studying above 6 points you will conclude India lacks infrastructure for a cashless economy.

**CONCLUSION**

A report provided by Google India and the Boston Consulting Group states that by the year 2020, $500 billion worth of transaction would happen online which means, it will increase by 10 folds. It is the time to go cashless economy. The purpose of demonetization is not only to remove black money but also to encourage cashless payment. Cash based payments are expected to fall by 50% in the coming years. Online transactions have become 20 times in the last 6 years, and this data was prior to the demonetization drive, going by the recent trends, it is safe to say that India and Bharath, both are doing quite well in this regard. While, a Cashless India may seem a tad too ambitious at this point, a less-cash India is certainly around the corner.