

# Cash to Cashless economy-challenges and opportunities

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**ABSTRACT** : India is an ordent effort to move towards cashless transaction economy by minimizing the use of physical cash . The leading advantage of building a cashless economy is elimination of black money. Digitalization of transaction is the best way to move towards cashless economy..the recent move of Demonetization has rattled the dusty cages of cash based economy and forced people to rethink on the medium of transaction and trade .The Demonetization drive was initially termed as a tool to tackle the problem of black money and fake currency .this paper is focused on what are the different challenges and opportunities available in the indian market for cashless economy .

**KEYWORDS:** cashless economy, Digitalization , Demonetization ,Electronic payments.

I. **INTRODUCTION:** India continues to be driven by the use of cash ,less than 5% of all payment happen electronically however the finance minister ,in 2016 budget speech talked about the idea of making India a cashless society with the aim of curbing the flow of black money . Even RBI has also recently unveiled a document - “payment and settlement system in India vision -2018 : setting out plan to encourage electronic payments and to enable india to move towards a cashless society or economy in the medium and long term.

## II. OBJECTIVES OF HE STUDY:

- to analyze the oppotunities available in India moving towards cashless economy .
- to analyze what challenges India will face in moving towards cashless economy .
- to analyze where does India stand today .

## III. LITERATURE REVIEW:

Review of literature paves way for a clear understanding of the areas of research already undertaken and throws a light on the potential areas which are yet to be covered. Keeping this view in mind, an attempt has been made to make a brief survey of the work undertaken on the field of Cashless economy. The reviews of some of the important studies are presented below. Cashless economy is not the complete absence of cash, it is an economic setting in which goods and services are bought and paid for through electronic media.

- According to Woodford (2003), Cashless economy is defined as one in which there are assumed to be no transactions frictions that can be reduced through the use of money balances, and that accordingly provide a reason for holding such balances even when they earn rate of return. In a cashless economy, how much cash in your wallet is practically irrelevant. You can pay for your purchases by any one of a plethora of credit cards or bank transfer

- (Roth, 2010) observed that developed countries of the world, to a large extent, are moving away from paper payment instruments toward electronic ones, especially payment cards. Some aspects of the functioning of the cashless economy are enhanced by e-finance, e- money, e-brokering and e-exchanges. These all refer to how transactions and payments are effected in a cashless economy (Moses-Ashike, 2011).
- Marco and Bandiera (2004) argue that increased usage of cashless banking instruments strengthens monetary policy effectiveness and that the current level of e-money usage does not pose a threat to the stability of the financial system. However, it does conclude that central banks can lose control over monetary policy if the government does not run a responsible fiscal policy.
- According to a 2015 report by Price Water House Coopers, India's unbanked population was at 233 million. Even for people with access to banking, the ability to use their debit or credit card is limited because there are only about 1.46 million points of sale which accept payments through cards.
- A study by Boston Consulting Group and Google in July noted that wallet users have already surpassed the number of mobile banking users and are three times the number of credit card users.
- Arpit guru and shruti kahanijow(2010)researchers analyzed the black money income /need for amendment in DTAA and ITEA and analyzed the black money is spread everywhere in India up to a large extent which continuously stashed towards abroad in a very large amount . The researcher also identified how black money had caused menaces in our economy and in what ways it is used.
- Sukanta sarkar (2010) conducted a study on the parallel economy in India : causes ,impacts and government initiatives in which the researchers focused on the existence of causes and impacts of black money in India . According to the study , the main reason behind the generation of black money is the Indian political system i.e Indian govt. just focused on making committees rather than to implement it . The study concludes that's laws should be implemented properly to control black money in the economy.

**IV. RESEARCH METHODOLOGY:** the study is based on secondary sources of data/ information. Different books , journals , newspaper and relevant websites have been consulted in order to make the study effective.

### 1.1 What is cashless economy????

Cashless economy is one in which all the transactions are done using cards and digital means. the circulation of physical currency is minimal in cashless economy .its true India uses too much cash for transaction s in comparative to other countries .

### 1.2 Where does India stands ???

-the ratio of cash to GDP in one of the highest in the world. 12.42% in 2014 compared with 9.47% in china or 4% in brazil.

- Less than 5% of all payments happen electronically in comparative to other countries.

- the number of currency notes in circulation is laso far higher than in other economies .India had 76.47 billion currency notes in circulation in 2012 -13 compared with 34.5 billion in the U.S .

-In India some studies show that cash dominates even in malls, which are visited by people who are likely to have credit cards.

### 1.3 Is the transition possible??

India will witness \$500 billion worth of transactions by 2020 which is 10 times the current level . The country's Smartphone users are expected to increase to 520 million . Internet users are expected to increase to 650 million , encouraging people to move towards cashless transactions.

At the same time , non banking companies like Airtel , Vodafone , paytm, mobiwik are offering wallet services already.. to make this

transition possible, the government will need to work on digital infrastructure. It also has to waive the service tax on digital payments.

## 2.1 Benefits of Cashless Economy

Cashless economy helps in curbing generation of black money. As a result it reduces real estate prices because most of black money is invested in Real estate which inflates the prices of Real estate markets. 1 in 7 notes is supposed to be fake, which has a huge negative impact on economy, by going cashless, that can be avoided. An increased use of digital payment instead of cash would enable a more detailed record of all the transactions which take place in the society, allowing more transparency in business operations and money transfers which reduce tax avoidance and money laundering. Cashless Economy also reduces the cost of banking services. It also improves monetary policy in managing inflation and increases economic growth in our country. Another benefit of cashless economy is that it discourages cash-related robberies and other cash-related crimes.

## 2.2 Importance of Cashless Transaction:-

- **·Taxation:** with lesser availability of hard cash at homes and more in banks, there is lesser scope of hiding income and evading taxation and when there are more tax payers it ultimately leads to a lesser rate of taxation for the whole country.
- **·Transparency and accountability:** it becomes a lot easier to track the flow of money with every transaction being recorded with the buyer, seller as well as regulatory bodies, making the system much more transparent and compliant. In the long term it leads to better business and investment prospects for the economy as a whole.
- **·More currency in bank will mean more circulation of money in the economy,** leading to greater liquidity and would eventually mean lesser interest rates (according to the monetary policy of the country).
- **·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
- **·Less availability of cash for illegal activities:** when people are encouraged to go cashless, there is lesser cash available with the people and there won't be a means to invest in other activities to use the idle cash. Channels like hawala (illegal remittance) will ultimately suffer the brunt of a cashless economy.
- **·Pack of cards:** No need to carry bulky notes in a case. Just carrying the required cards or mobile banking will suffice. More sense of safety with a PIN protected card etc. which will work only with your own credentials.
- **·No fear of being robbed** unlike carrying cash and letting everyone know that there could be something worth snatching.
- **·Tracking of expenses:** it becomes easier to determine how much was spent where.
- **·The exact amount in small denominations can be paid.** Unlike cash transactions, there is no need to pay fringe amount in case the exact amount is not available with either of the parties. An important, though seemingly insignificant issue is that of hygiene of the notes.
- **·Easier accounting Direct payment to bank account.** You don't need to go every day to deposit cash to your current account.
- **·Easier transactions:-**We can easily do any transaction with security.

## 3.1 Challenges in making India a cashless economy

Large part of the population is still outside the scope of Net banking like use of credit or debit cards, making transactions using mobile phones, and using the internet to pay bills they are not in a position to reduce its dependence on cash. Second, about 90% of the workforce, which produces nearly half of the output in the country, works in rural sector. It will not be easy for this sector to

become cashless. There is a general preference for cash transactions in India. Merchants prefer not to keep records in order to avoid paying taxes and buyers find cash payments more convenient. Although cashless transactions have gone up in recent times, a meaningful transition will depend on a number of things such as awareness, technological developments and government intervention. For instance, mobile wallets have seen notable traction, and it is possible that a large number of Indians will move straight from cash to mobile wallets. The availability and quality of telecom network will play an important role. People face difficulties in making electronic payments even in metro cities because of poor network. Service providers will have to constantly invest in technology in order to improve security and ease of transaction. People will only shift when it's easier, certain and safe to make cashless transactions. The government will also need to play its part. It will have to find ways to incentivize cashless transactions and discourage cash payments. Difficulties in changing attitudes and perception of people towards moving digital payments. India is dominated by small retailers. They don't have enough resources to invest in electronic payment infrastructure.

## V. CONCLUSION

However, the benefits of this move have now started trickling in with more and more people switching to digital modes of receiving and making payment. India is gradually transitioning from a cash-centric to cashless economy. Digital transactions are traceable, therefore easily taxable, leaving no room for the circulation of black money. The whole country is undergoing the process of demonetization in money transactions, with e-payment services gaining unprecedented momentum. A large number of businesses, even street vendors, are now accepting electronic payments, prompting the people to learn to transact the cashless way at a faster pace than ever before

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