



ASSESSING THE DYNAMICS OF GOING CASH-LESS: POSSIBILITIES AND PITFALLS FOR INDIA

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Abstract: The recent moves of Indian government, whether it be Digital India or demonetization or DBT, all intends to drive India towards cash-less economy. Although these initiatives are the key to address the issues of financial inclusion, poverty alleviation, cheap access to credit and corruption, but the fact that 95 percent of transactions in India are cash based cannot be overlooked, as India is a cash based economy, with the cash-to-GDP ratio being 12 percent. Only 10-15% of the population is estimated to have ever used any kind of non-cash payment instrument, compared to 40% of people in countries like Brazil, and china. Thus, the journey of Indian economy from cash towards going cashless is highly debatable. Therefore, this study discusses the concept and the various dynamics of going cashless along-with the current position of India. The study also puts forward the benefits and adverse impact of going cashless. It also assessed the growth on the path of being cashless in terms of digital payments. Moreover, an effort is made to know about pitfalls on the way of going cashless for India. It is obvious from this study that the future of the Cashless India looks pretty promising. In spite of the pitfalls in going cashless, the response of the people towards this move of the government is a clear indication that the journey of Indian economy from cash to cashless is likely to succeed in near future, if the prerequisite infrastructure are made available and the hindrances are removed. This revolutionary shift, into the new era of digital payments, entails a need of series of radical reforms in a phase wise manner, especially in rural areas as it can't be forced abruptly.

Keywords: Cashless Economy, India, Cash, Digital Payment, Digital India, Demonetization.

I. INTRODUCTION

Today, in the twenty-first century, one cannot imagine life without technology. Technology has touched each and every facets of one's life and its impact on economy cannot be overlooked, as IT-enabled systems are used massively whether it be education, banking, tourism, agriculture or governance. With the evolution of numerous cashless mode of payment methods, the Indian payment system has rapidly changed more and more towards digital payments over time.

Digital payments are nothing but simply, the use of electronic enabled systems backed by IT to make payments in daily walk of life without cash, as these are linked to one's bank account and payments are directly deducted from it. Digital payments comprises of several benefits which includes reduced wallet and mobile thefts; ease of use of Digital wallets in mundane places like movie theatres, utility bill payment, etc. which can be loaded with money through plastic cards (debit or credit cards) or by internet banking; reduced cost of printing money for government treasury, and logistics costs incurred through maintenance of ATMs and transport costs for taking money to the ATMs; reduced circulation of counterfeit currency, black money or unaccounted money; and reduced corruption and it's also good for banking sector, more transparency and monitoring etc. (Rajadhyaksha and Jaiswal, 2017).

The digital payments has been seen as a major driving force behind cash-less economy the world over. Therefore, Indian government with its recent move, whether it be Digital India or it be demonetization or Direct Benefit Transfer, intends to drive India towards cash-less economy. The Indian finance minister, Mr. Arun Jaitley, 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 the RBI has also recently disclosed a document — “Payments and Settlement Systems in India: Vision 2018” — setting out a plan to encourage electronic payments and to enable India to move towards a cashless society or economy in the medium and long term. Niti Aayog CEO Amithabh Kant claimed that because of digitalization, the ATMs, credit cards and debit cards and POS in India will become redundant by 2020 (Wilson, 2017).

Although digitalization and cashless payments are the key to address the burning issues of financial inclusion, poverty alleviation, cheap access to credit and corruption but the fact that 95 percent of transactions in India are cash based, cannot be overlooked as India is a cash based economy, with the cash-to-GDP ratio being 12 percent. Only 10-15% of the population is estimated to have ever used any kind of non-cash payment instrument, compared to 40% of people in countries like Brazil, and china. However, India, being one of the rapidly emerging economy with its huge diversities, has also made several efforts in this direction in recent past. Thus, the journey of Indian economy from cash towards going cashless is highly debatable.

II. OBJECTIVES OF THE STUDY

- 1) To explore the concept and the various dynamics of going cashless along-with the current position of India.
- 2) To study the benefits and negative impacts of going cashless.
- 3) To highlight the pitfalls on the way for India to become cashless economy.

III. RESEARCH METHODOLOGY

The research design employed for the purpose of present study is exploratory cum descriptive in nature. The study covers a time period from January, 2016 to December, 2022. The study is entirely based on secondary sources of data which has been particularly collected from RBI Bulletins, research papers, articles, reports of RBI, reports of committees, newspapers, magazines and websites, etc.

IV. MEANING OF CASHLESS ECONOMY AND INDIA'S PRESENT POSITION

A cashless economy is the one in which all types of transactions are carried out through digital means. It involves increased use of numerous cashless or electronic mode of payment methods, such as RTGS (real time gross settlement), Retail Electronic Clearing, (National Electronic Funds Transfer), IMPS (Immediate Payment Service), National Automated Clearing House (NACH), Credit Cards and Debit Cards usage at POS (point of sale) and at ATMs, Prepaid Payment Instruments (PPIs), m-Wallet, PPI Cards, Paper Vouchers, Mobile Banking. It should not be perceived as the shortage of cash.

At present, India is lag behind other economies in context of cashless transactions. The ratio of cash to gross domestic product in India is one of the highest in the world, 12.42% in 2017 as compared to 9.47% in China, 4% in Brazil and 3.7% in South Africa. Another report by Boston Consulting Group (BCG) and Google India mentioned that last year around 75% of transactions in India was cash based while it was 20-25% in developed nations such as US, Japan, France, Germany, etc. Another statistics have revealed that India has 76.47 billion currency notes in circulation in 2012-13 as compared with 34.5 billion in the U.S. Moreover, various other studies have shown that people prefer to make payments in cash at malls even when they carry cards with them.

On 2nd July, 2015, Mr. Narendra Modi launched the programme "Digital India" with a vision to transform India into a digitally empowered nation and creating a cashless economy. As per the current status of India, only 7 to 8 percent of all payments are taking electronically. The programme was mainly introduced to ensure that government services are made available to citizens using information and communication technologies by joining all areas of India including the Gram Panchayats at high speed internet through broadband connectivity, in order to focus on the e-governance till 2019.

On the eve of 8th November, 2016, the Indian economy quivered with the bold and unexpected move of the Indian government to demonetise ₹500 and ₹1,000 banknotes. Though India has experienced demonetization twice in the past (in 1946 and 1978) but unfortunately 2016 demonetization encompassed the stripping of 86.9 per cent of the value of total currency in circulation in India. Though, the benefits and flaws of demonetization are argued widely, but the concerted move of 2016 demonetization, against corruption, black money, money

laundering and terrorism, gave a big push to digital payments in shortest possible time. Even empirical evidences support that demonetization and cash-less economy in the long run will have negative impact on black money and positive impact on economic growth and development. To give a fillip to digital payments, the Government of India launched the Bharat Interface for Money (BHIM) App and the Unified Payments Interface (UPI). Reserve Bank of India reported increase in the digital payments by 56 percent from 71.27 crore transactions in October, 2016 to 111.45 crore till May, 2017 (Report on Demonetisation, 2017). Thus, the government applauded the success of demonetization in achieving 'going cashless' to an extent.

V. BENEFITS OF GOING CASHLESS

Going cashless has various benefits both for the individuals as well as for the economy. The key benefits of going cashless are as under:

- **Ease of Use-** Going cashless brings one of the primary benefit of the ease of use of digital wallets in mundane places like movie theatres, utility bill payment, fund transfer, recharge etc. which can be loaded with money through plastic cards (debit or credit cards) or by internet banking, without the worry of carrying cash everywhere and standing in long queues.
- **Lower Risk-** Going cashless also brings the benefit of reduced wallet and mobile thefts as a PIN protected card lowers such risks to a great extent and gives a sense of security.
- **Lesser Instances of Tax Avoidance-** When all the transactions are made digitally, Income tax officials can easily monitor each transactions because of more transparency, hence there is lesser scope of hiding income and evade taxes. Consequently, it will help in increasing revenue of the government and this will further help the government to do more productive activities for the welfare of the economy.
- **Reduction in Government Expenditure-** A study, 'The Cost of Cash in India' by Tufts University in 2014, revealed that cash operation costs about Rs. 21,000 crore annually to the Reserve Bank of India and commercial banks. In 2015, RBI spent Rs. 27 billion on the issuance and management of cash alone. If the economy becomes cashless, this expenditure can be reduced.
- **Controls Generation of Black money or unaccounted money-** With the economy going cashless, people find it difficult to hoard money under their bed, launder money bypassing the banking channels.
- **Curb the circulation of counterfeit currency-** India has been suffering with the problem of counterfeit or fake currency in circulation. This problem can be easily addressed by going cashless. This will stop the circulation of Fake Currency in single shot.
- **A Step to become Corruption-free-** The increased transparency, accountability and easy monitoring of the transactions in the cashless economy holds the very nerve to control corruption in the economy. This improves the service time.
- **Reduced cost for Issuance of currency-** In the year 2015, RBI spent Rs. 27 billion on printing and issuance of currency, which is a heavy burden on government treasury for developing country like India. This could be avoided if India becomes a cashless economy.

- **Reduced cost of Managing Cash-** For an economy fully dependent on cash transactions has to bear the logistics costs incurred through maintenance of ATMs and transport costs for taking cash to the ATMs, which can be reduced by going cashless to a considerable extent.
- **Curb Terrorist Financing-** With the increased transparency and easy monitoring of the transactions in the cashless economy, the terrorist who need money to finance their terror and crime activities such as burglary, extortion, bank robbery, etc. can be easily restrained, as the channels of such illegal remittances are blocked.
- **Good for Banking Sector-** Cashless economy will help to reduce the workload on the bank employees and will help the banks to increase their productivity and profitability.
- **Opportunity for Giving a Boost to the Economy-** With the easy and cheap access to credit in a cashless economy, it becomes easy to achieve financial inclusion and eliminate poverty. Cashless economy will boost consumption as people would not be attracted towards keeping money in banks. More consumption will lead to more production, more employment opportunities and hence give a boost to the economy. The transparency in the economy will increase through the e- transactions and the digital payment gateways which will increase the GDP of the economy. This will improve the creditability of the country and make a rise in investments.

VI. ADVERSE IMPACTS OF GOING CASHLESS

The aura of going cashless is spreading widely the world over and in India too. But as we know there is two facets of every coin, so following are the major adverse impacts of going cashless with special reference to India:

- **Rise in Cyber Crimes-** With the increased use of cashless mode of payment, more and more people use internet which is giving boost to the cyber-crimes, online frauds and hacking. The table below shows the number of registered cases in cyber-crime:

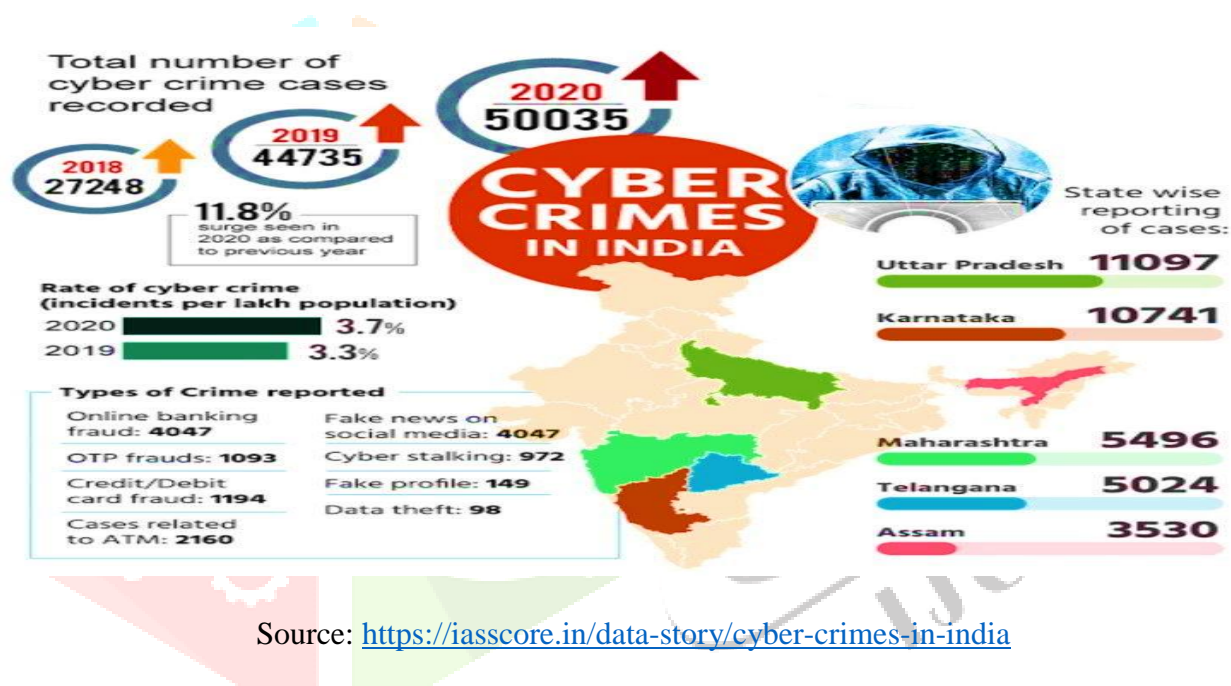
Table 1: Rate of Cyber Crimes in India

Year	Cyber Crimes Reported
2012	3477
2013	5693
2014	9622
2015	11592
2016	12317
2017	21796
2018	27248
2019	44546
2020	50035
2021	52974

Source: www.statista.com

- **Increased chances of Duping-** Besides performing digital transactions on internet people are using public networks which are more prone to traps and thereby increased risk of being hacked through access of account related sensitive information.
- **Chances of Frauds through card transactions-** According to the ASSOCHAM Reoprt, 46% complaints of credit/debit card frauds, 18% on account hacking of email ids and 21% complaints on account of cheating through mobiles (source: www.newsnation.in). As per the Economic times of India, 3.2 million card details of SBI, HDFC, ICICI, Axis banks were stolen in malware which was a major security threat in October, 2016. Stolen debit cards were used in China and the case is still under investigation. The figure below shows the number of registered cases in cyber-crime and chances of frauds:

Figure 1: Number of Cyber Crime Cases Recorded and Chances of Frauds



VII. MAJOR PITFALLS ON THE WAY OF GOING CASHLESS

Despite the huge rise in the digital transactions in recent years, the cash to GDP ratio of India stood at 10.6% in March, 2016, which was the highest in last 16 years and as compared to other BRICS nations too. In India, less than 15% of all payment happen digitally. The number of currency notes in circulation in India was 17.77 trillion as compared to \$1.48 trillion in the U.S. as on 20th October, 2016. Few of the major pitfall on the path of Indian economy in pursuit of becoming cashless are as under:

- **Large Portion of Un-banked Population-** Financial inclusion is a prerequisite for a cashless economy. But at present, a large portion of the population, still don't have bank accounts. Despite the efforts of Government, out of 130 crore population, 41 percent is still remains unbanked. The idea of Cashless economy is not possible, unless people have bank accounts. And even today this process of opening of banks accounts is not complete and is still in progress.

- **Non-functional Bank Accounts-** Even though bank accounts have been opened by the efforts of Government through Jan Dhan Yojana but most of them still remain non-functional. Such a situation also snags the idea of becoming cashless.
- **Low Literacy Rates-** In comparison to other cashless economies, India's literacy rate is much below. It is not possible for an illiterate person to perform cashless transaction. Further, it also raises the chances of fraud while seeking others to do it for them.
- **Tech-unfriendly People-** Despite having considerable rate of literacy, there is still a major portion of population is not tech-friendly especially in rural areas of India. As per Internet live stats only 26.3% of all mobile phone users have a smart phone. This makes it difficult for the economy to go cashless.
- **Unfavourable for Poor Section-** Poverty is a grave problem the country is facing. The idea of going cashless seems to be unfavourable for the poor section of the country as they are solely dependent on cash for their daily wages.
- **Lack of Infrastructure-** Infrastructure like internet access, smartphone and broadband penetration and fast internet connectivity are essential for any cashless economy. But in India, nearly 900 million people do not have access to internet due to lack of routers, optical fibre links and servers. The internet penetration rate is just 33.22% which is very low when compared with U.S.A. (88.5), China (52.2), Brazil (66.4), Japan (91.1), and Russia (71.3). Further, the internet loading speed is very low. The average page load time is 5.5 seconds in India while in China it is 2.6 seconds. Thus, the slow speed of internet connectivity is another hurdle in making digital transactions. Lack of adequate number of towers, particularly in rural areas is another pitfall in the way.
- **Lack of Adequate number of POS Machine-** As per the Macquarie Research posted on the website of NPCI, India is still far behind in terms of number of POS machines which is 2 per 1000 debit cards as compared to other countries like in Brazil 14.8, China 12.5, Russia 6.1, U.S. 13.1, and in Australia is 33.2 per 1000 debit cards (source: www.indianexpress.com). The RBI Bulletin of November, 2017 revealed that The total number of POS terminals increased from 1.48 million to 2.9 million after demonetization which is insufficient in comparison to 10 million of the U.S.A.
- **Habit and Attitude towards Cash-** It is evident from few of the researches that despite having proper infrastructure and internet access and bank account and cards, people prefer cash over cashless transactions as it is more convenient and fastest method of payment. This habit of carrying and dealing in cash is deeply rooted in the people of India.
- **Cost of Infrastructure-** Indian economy is largely dominated by small retailers, therefore they find it difficult to invest their meagre resources on the purchase of electronic payment infrastructure.
- **Bank Charges-** Most of the card users use cash due to the bank charges imposed on the digital transactions. Not everyone can afford such charges.
- **Lack of Strong Security Systems-** As digital payments are highly prone to cyber-attacks, cyber frauds, phishing and identity theft, so lack of strong and resilient security systems are the biggest hurdle in the pursuit of Indian economy from cash to cashless. India has witnessed few major cyber theft due to malware, defacements and virus code in recent past. The Indian Computer Emergency

Response Team (CERT-In) has reported a surge in the number of incidents till October, 2016 with 39, 730 security incidents in India.

VIII. CONCLUSION AND SUGGESTIONS

It is apparent from the study that the future of the Cashless India looks pretty promising. In spite of the pitfalls in going cashless, the response of the country people towards this move of the government and the support towards it, is a clear indication that the journey of Indian economy from cash to cashless is likely to succeed in near future, if the prerequisite infrastructure are made available and the hindrances are removed. More and more public would prefer to move towards cashless society if the taxes, surcharges and fees charged on digital payments are relaxed and made liberal. Yet, another challenge before the government to put strong security systems to protect the information and crucial details from being stolen. Hence the government should establish a secure security system. This requires enhanced defences against attacks, data protection, addressing privacy concerns, robust surveillance to pre-empt attacks and institutionalised cyber security architecture. Financial and digital literacy should also be imparted so as to spread the awareness about digital options in order to initiate behavioural change in the habits and the attitude of the country people. Another challenge before the government is to provide good internet facility at low cost in each part of the country and make it accessible to everyone with ease. The government should essentially focus on IT sector for improving the data connectivity. So, it can be concluded that there is huge possibility for India to become cashless. But this revolutionary shift, in the new era of digital payments, entails a need of series of radical reforms in a phase wise manner, especially in rural areas as it can't be forced abruptly.

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