



Cashless Transactions In India: Recent Trends, Problems And Recommendations Dr Jagpal Singh

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Abstract

India is moving towards cashless economy. The volume of cashless transactions is increasing at a faster rate particularly after demonetization in 2016 and covid19. No doubt, the trends of cashless transactions in India during the recent years are good signals but still, there are many problems like lack of digital infrastructure, risk in cashless transactions etc which proves hurdles in the way cashless economy in India. Therefore, it is necessary that the government should take some immediate steps to achieve the goal of cashless economy.

Key Words: cashless transactions, digital literacy, digital infrastructure, cyber security

Introduction

At present cash is a basic necessity without which survival is a challenge. No doubt, at present around 85 per cent of global payments made using cash but cashless transactions are gaining more and more importance day by day. As per views of some people India is moving towards cashless economy. Cashless economy is a situation in which the flow of cash within an economy is non-existent and all transactions are done through electronic media channels such as credit and debit cards, and using payment systems such as Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS). Although the credit cards and online payment services are becoming more popular in India but still there exists many problems and risks associated with electronic payment instruments. Recently lakhs of debit card data were stolen by hackers which show the inability of Indian financial institutions to protect the electronic means of cash transactions. Therefore, it is the need of hour to recognize the risks and benefits of different payment instruments,

Indian Economy is leading the world with a share of 48.5 per cent in global real time payments volume with recorded 89.5 million transactions in 2022, followed by Brazil with 29.2 million transactions then followed by China with 17.6 million transactions. As on March 2024 over 40 per cent transactions in India are cashless, though 60 per cent of consumer spending is still cash based. Still there is a huge scope to increase the percentile of cashless transactions in India. Some of people are illiterate, poor, engaged in small transactions and having less banking habits. For them cash is the most convenient and easy form of

medium of exchange. A cash transaction is immediate and doesn't involve any intermediary. Cash provides individuals and families with liquidity. One needs not to worry about a computer system crashing, power going off, and losing transaction midway. Use of cash doesn't involve any extra cost as in the use of debit/credit cards. Even in the most cashless countries like France and the Netherlands, cash still accounts for 40 per cent or more of all consumer transactions. Usually cashless economies have low corruptions and less black money. Almost every country is bracing towards cashless economy and many countries have made significant progress. It is just a world trend which India is trying to catch up.

Prior to the cashless era, in India only 5 per cent of payments happened electronically. The number of currency notes in circulation has been found far higher than other large economies. A report by Boston Consulting Group (BCG) and Google India revealed that in 2016 around 75 per cent of transactions in India were cash based while in developed nations such as US and Japan, it was around 20-25 per cent. According to Master Card study (2016), 80 per cent of U.S. consumer transactions are electronic while in Sweden only 3 per cent of transactions are made in currency. With advances in technology a number of new payment solutions has emerged, including premium SMS payments, M-PESA, Pay Pal, Google wallet, Bit coin, etc. RBI has made many provisions to promote digital settlement of transactions. Most important of them is being the launch of a regulatory set up for digital payments.

The RBI and the Government of India are making various efforts to minimize the use of physical cash in the economy by promoting the digital payment devices or modes including prepaid instruments and cards. RBI's effort to encourage these new varieties of payment and settlement facilities aims to achieve the objective of a 'less cash' society. Here, the term less cash society and cashless transaction economy indicate the same thing of minimizing cash transactions and settlement rather doing transactions digitally. Cashless transaction economy doesn't mean shortage or scarcity of cash rather it indicates a culture of people settling transactions digitally. In a modern economy, money moves electronically. Hence the spread of digital Payment system along with the expansion of infrastructure facilities is needed to achieve the goal.

The Reserve Bank of India and Government of India has launched different measures for the spread of electronic and other non-cash settlement culture in an economy. The Vision-2018 for Payment and Settlement Systems in India brought by the RBI in June 2016 reiterates the commitment to encourage maximum use of electronic payments by all sections of society so as to achieve a "less-cash" society. The technology has spread internet banking system or core banking solutions, mobile banking, credit and debit cards etc. are fast growing. All these measures indicate that India is moving towards the RBI's goal of less cash economy-steady but slowly. It's time to go cashless transactions system. The purpose of demonetization (2016) in India is not only to remove or avoid black money in transaction but also to encourage cashless payment method. Instead of breaking heads by standing in Automated Teller Machine (ATM) queue you should adopt a cashless method for the transaction. A cashless method is more transparent as each and every transaction can be traced easily as it leaves its footprints. Many people have adopted new cashless payment options. In the recent past; the term cashless has been a matter of interest among bureaucrats, academicians, and researchers around the world. Cashless economy is a layout where

to make transactions; one does not need to carry cash in physical form as a medium of exchange, but rather with the use of credit or debit cards or electronically. It does not mean the total elimination of cash, but it is just the transformation of the economy into an ambiance that minimizes the use of physical cash by providing alternative channels for making payments. Globally both developed and developing economies are making great strides in minimizing the use of paper money. Sweden is on the way to be the first cashless economy, as major banks had stopped working in cash. People in Belgium do not remember the last time when they had paid in cash. Denmark is also in the list where less than 25 per cent of retail transactions are made in cash. To date, India continues to be driven by the use of cash; however, the Finance Minister, in 2016 budget speech talked about the idea of making India a cashless society. In its recent publication, "Payments and Settlement Systems in India: Vision 2018", carved out plans to boost up electronic payments and to enable India to move towards a cashless society. India holds one of the highest cash to gross domestic product ratios in the world and lubricating economic activity with paper costs Rs 21000 crores annually to RBI. In a step towards the development of the economy and to keep an eye over tax hoarders, the government of India has launched its campaign "cashless India."

Significance of Study

The world is moving towards cashless. With increasing mobile banking services, growth in e-commerce and use of mobile payment applications, the use of cash will decrease. Digital payments have recorded a growth of 30.19 per cent during the ended march 2021. The following table 1 shows the different countries using cashless transaction as on March 2021.

Table 1: Country wise Cashless Transaction (March 2021)

S no.	Country	Cashless Transactions(in percentage)
1	France	92
2	Sweden	91
3	Singapore	90
4	Canada	90
5	Australia	86
6	Netherlands	80
7	India	30.19

Source: Survey by Global Web Index

The above table show that India is still behind than many countries in cashless transactions. Electronic payments will beneficial for business people to increase their customer base even in far of geographic locations and hence will result in increased business tractions. The real estate prices will come down because of curb on black money circulation, as most circulation, as most of the black money is invested in real estate's business. Making online payments are handy and it will lead to slim wallets as people need not carry hard cash. Generation of counterfeit currency will be decreased and hence terrorism can be prevented.

Objectives

The present study has the following objectives:

1. To examine the recent trends of Cashless Transaction in India.
2. To analysis the various problems of cashless transaction in India.
3. To recommend the suggestions to increase the cashless transactions in India.

Research Methodology

This is a descriptive research work. The study is based on the secondary data collected from various published and unpublished sources. Growth rate is used for the analysis the data. Bar diagram and growth chart is used to present the analysis.

Review of Literature

World Payments Report (2012) highlighted a significant growth in non – cash payments globally, particularly in emerging markets. It found that non cash payments make it easier and quicker for people and business to buy goods and services.

Hasan, Renzis and Schmiedel (2012) in their study on Retail payments and economic growth (Bank of Finland Research Discussion Paper19) explored fundamental relationship between electronic retail payments and overall economic growth and found that electronic payments stimulate overall economic growth, consumption and trade.

Borhan Omar Ahmad Al-Dalaïen (2017) in his study in cashless economy of India, cashless ahead (Asian Journal of Applied and Technology AJAST) examined that cashless economy is an economic system in which there is little or very low cash flow in a society and goods and services are bought and paid through electronic media. There are many benefits of cashless economy like faster transactions, increased sales, prompt settlement of transactions, convenience and lower risk, transparency and accountability, and reduced maintenance costs. Despite many benefits, there are several challenges before cashless policy in India such as inadequate number of ATMs, digital illiteracy, lack of internet facilities, few banks in villages, costly swipe machines etc. The findings revealed that there are no significant benefits of cashless economy to the general public.

Preeti Garg and Manvi Panchal (2017) studied on introduction of cashless economy in India (IOSR Journal of Business and Management) examined that many people actually positive opinion about cashless transactions and usefulness of cashless economy as it helps to fight against terrorism, corruption, money laundering but one major problem in the working of cashless economy in India is cybercrimes and illegal access to primary data. Therefore it's important to strengthen Internet Security from protection against online frauds. Huge number of population in India is still below literacy rate living in rural areas. For smooth implementation of cash less system in India, the following some measures are recommended Government have to bring transparency and efficiency in e-payment system, strategies used by government and Reserve Bank of India to motivate cashless transactions by licensing payment banks, promoting mobile wallets and withdrawing service charge on cards and digital payments. A financial literacy campaign

should be conducted by government continuously to make population aware about advantages of electronic payments.

Sheetal Thomas & G. Krishnamurthi (2017) examined in their study Jharkhand Journal of Development and Management studies that there is enormous potential that rural economy in India can become a cashless economy. The rural population is ready to learn it, with one person receiving benefit soon the rest of the village will follow. Keeping the level consumption patterns and the recent trends into mind the government can plan for implementation of basic support system like, incentivizing the use of internet through free data and smart phones, distribution of laptops to students taking higher education in nearby towns. Another way is by creating awareness about digital transactions and financial literacy among rural people by partnering with different educational and NGO's. It can make the cashless rural economy a reality from dream.

Dr. Tushar Chaudhari (2017) in his study The Critical Analysis of Cash Transactions (International Journal of Commerce and Management Research) observed that cashless transaction systems are not possible without adequate internet facilities, so government must investigate in infrastructure availing internet. Especially free Wi-Fi zones should be made available at local market. All the major banks must have separate counter which will be particularly used for assistance and guidance for cashless transaction system. Extra charges on Cashless transaction must be stopped. It should be made compulsory to all cooperative societies to make Cashless transaction specially cheque or demand draft. Some advantages must be given to the people who are using Cashless transaction. The vast advertisement campaign must be launched which will not only develop Cashless transaction but also will provide valuable assistance in using it.

Recent Trends of Cashless Transactions in India

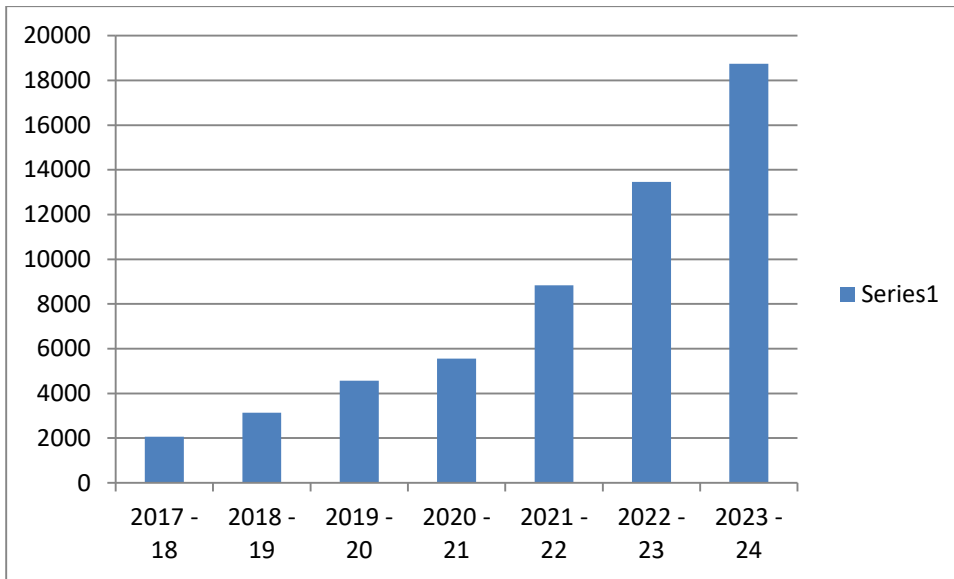
India is moving towards a cashless economy with increased use of credit/debit cards, digital wallets, e-payments and digital transfers. The vision of digital India has further given boost to the concepts of virtual shopping, e-cash, e-commerce, electronic fund transfer, etc. Electronic payments will beneficial for business people to increase their customer base even in far of geographic locations and hence will result in increased business tractions. The following table shows the trends of cashless transactions in India.

Table 2: Digital Payment Transactions Volume in India (in Rupees Crores)

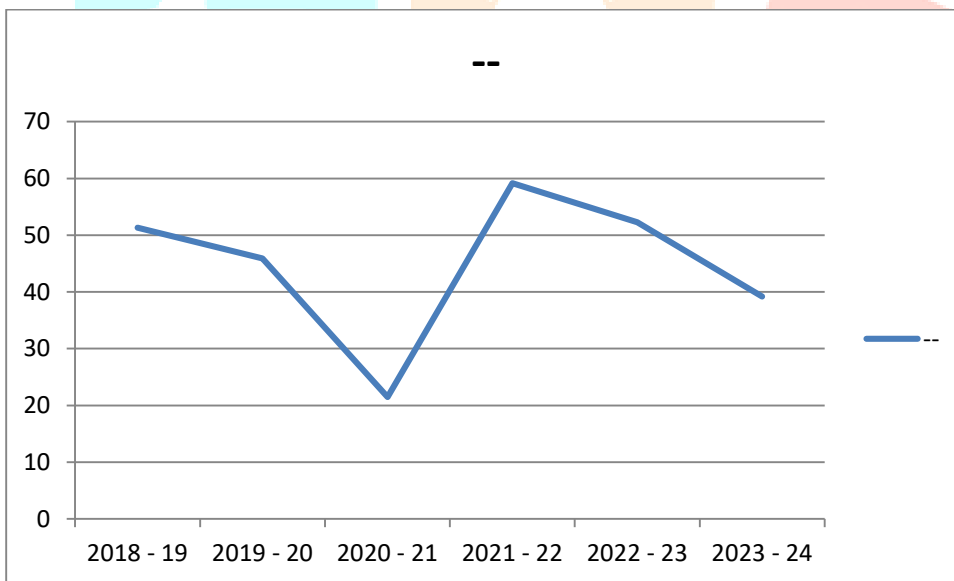
Fiscal Year	Digital Payment Transactions Volume	Annual Growth Rate (in per cent)
2017 - 18	2071	--
2018 - 19	3134	51.32
2019 - 20	4572	45.88
2020 - 21	5554	21.47
2021 - 22	8839	59.14
2022 - 23	13462	52.30
2023 - 24	18737	39.18

Source; RBI, NPCI and Banks

The following figure show the volume of digital payment (in rupees crores) in India during the recent years:



The following figure show the annual growth rate in per cent of volume of digital payment (in rupees crores) in India during the recent years:



The above table and diagrams show that the digital payment transaction volume in India has increased from Rs 2071 crores in 2017 – 18 to Rs 18737 crores in 2023 - 24. The annual growth rate ranges from 21.47 per cent to 59.14 per cent during this period. The annual growth rate of the digital payment transaction volume in India is not satisfactory during this period as in most of the years it is declining.

Problems of Cashless transactions in India

Before we dream of becoming a cashless economy we have to face many realities. A major part of the population is concerned about security and privacy issues. Lack of infrastructure is also a matter of challenge for two-third of the population. One of the challenges faced by Indians is the lack of education and knowledge regarding the cashless economy. The followings are the main problems of cashless transactions in India:

Lack of Digital Literacy

A significant portion of people in India is still illiterate. Such people have a fear that they can be victim of fraud or other malpractices while using digital payment method. Due to lack of training they don't know how to use debit or credit cards.

Lack of Gadgets and Internet Facility

A large portion of people in India lack gadgets and internet facilities, without it a country cannot think of becoming cashless economy. Still there are many rural and urban areas where it is difficult to access internet facilities. So, lack of digital infrastructure is another major problem of cashless transactions in India.

High Cash Dependency

In India there is a high cash dependency. Country has a high cash penetration in almost all of its transactions.

Cyber Security Concerns

The risk of data theft, fishing and fraudulent transactions through digital payment platforms is a major hurdle in the way of cashless transactions.

Transaction Fees

The transaction fees associated with small digital transactions is also a barrier in the way of cashless transactions in India.

RECOMMENDATIONS

- The government should take initiatives to remove the problems of poor internet connectivity.
- The government should take concrete steps to increase faith of people in cashless transactions.
- The government should take steps to increase the availability of gadgets for cashless transactions.
- A training drive for the people should be initiated to train them for digital transactions.

Summary and Conclusion

There is long way for India to become a cashless economy. People still lack trust and confidence while using digital payment methods. A lot of development in the field of infrastructure is required to make the dream Digital India a reality. There are many people who are still not aware about the cashless economy in India. Government has faced a lot of criticism in the past from the public. There are lots of challenges in fulfilling the dream of digital India but in the long run cashless economy will help in growth and will bring a lot of benefits and opportunities with it. The government should take steps to provide the sufficient digital infrastructure in the country particularly in rural areas. The government must take strict steps to check the frauds in digital transactions.

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