

# Impact Importance and Requirement of Cashless Transactions in India

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**Abstract:**—The Research paper focuses on impact and importance of cashless policy in India. According to Government of India the cashless policy will increase employment, reduce cash related robbery thereby reducing risk of carrying cash. Cashless policy will also reduce cash related corruption and attract more foreign investors to the country. In many countries introduction of cashless economy can be seen as steps in the right direction. It is expected that its impact will be felt in modernization of payment system, Reduction in the cost of banking service, Reduction in high security and safety risk and also curb banking related corruption. Electronic banking will be made banking transaction to be easier by bringing services closer to its customers hence improving banking industry performance. The financial safety over the digital payment channel is important for pushing the cashless economy idea. A major obstacle for the quick adoption of alternate mode of payment is mobile internet penetration, which is crucial because point of sale terminal works over mobile internet connection, while banks have been charging money on card-based transaction which is seen in hurdle. India has been using electronic payment system for many year now, However the retail sector still has predominance of cash transaction and payment through cash is yet to pick up card is the one of the most secure, convenient mode of cashless payment in retail market.

**Key Words** – Cashless, digital payment, payment channel, banking transaction

## INTRODUCTION

The Indian payment system is rapidly transiting to more and more IT based systems. In the retail sector we have very high volumes of money transactions. Other than cash, one of the growing payment methods adopted by merchants in the sector is payment cards. However, the whole isometrics of moving from cash-driven economy to cashless economy has somehow been assorted with demonetization that was aimed to extract liquidity from the system to unearth black money. With increasing adoption of electronic payments, particularly those driving e-commerce and m-commerce, there is a growing demand for faster payment services which, in turn, facilitate ease in doing financial transactions. Reducing Indian economy's dependence on cash is desirable for a variety of reasons. India has one of the highest cash to gross domestic product ratios in the world, and lubricating economic activity with paper has costs. According to a 2014 study by Tufts University, The Cost Of Cash In India, cash operations cost the Reserve Bank of India (RBI) and commercial banks about Rs21,000 crore annually. Also, a shift away from cash will make it more difficult for tax evaders to hide their income, a substantial benefit in a country that is fiscally constrained.

## LITERATURE REVIEW

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.

[1] According to Alvares, Clifford (2009) in their reports —The problem regarding fake currency in India. It is said that the country's battle against fake currency is not getting easier and many fakes go undetected. It is also stated that counterfeiters hitherto had restricted printing facilities which made it easier to discover fakes.

[2] Jain, P.M (2006) in the article —E-payments and e-banking| opined that e- payments will be able to check black —An Analysis of Growth Pattern of Cashless Transaction System. Taking fullest advantage of technology, quick payments and remittances will ensure optimal use of available funds for banks, financial institutions, business houses and common citizen of India. He also pointed out the need for e-payments and modes of e-payments and communication networks.

[3]Srinivas N. (2006) in his study —An analysis of the defaults in credit card payments|, has tried to analyze the socio-economic profile of the defaulters of credit cards, to identify the set of factors which contributed to such defaults and suggest relevant measures to minimize the default cases. Analysis of reasons indicated that economic hardship is the major reason identified by majority of the sample units follows by rigid payment structure and loss of job/business. The main suggestion is that the banks concerned should redesign the payment structure of credit card defaulters in a flexible and affordable installment.

### OBJECTIVE OF THE STUDY

The aim behind this Research is :

- To know what a Cashless Transaction means.
- Impact and importance of Cashless Transaction System.
- Requirement of cashless transaction in future.

### RESEARCH METHODOLOGY

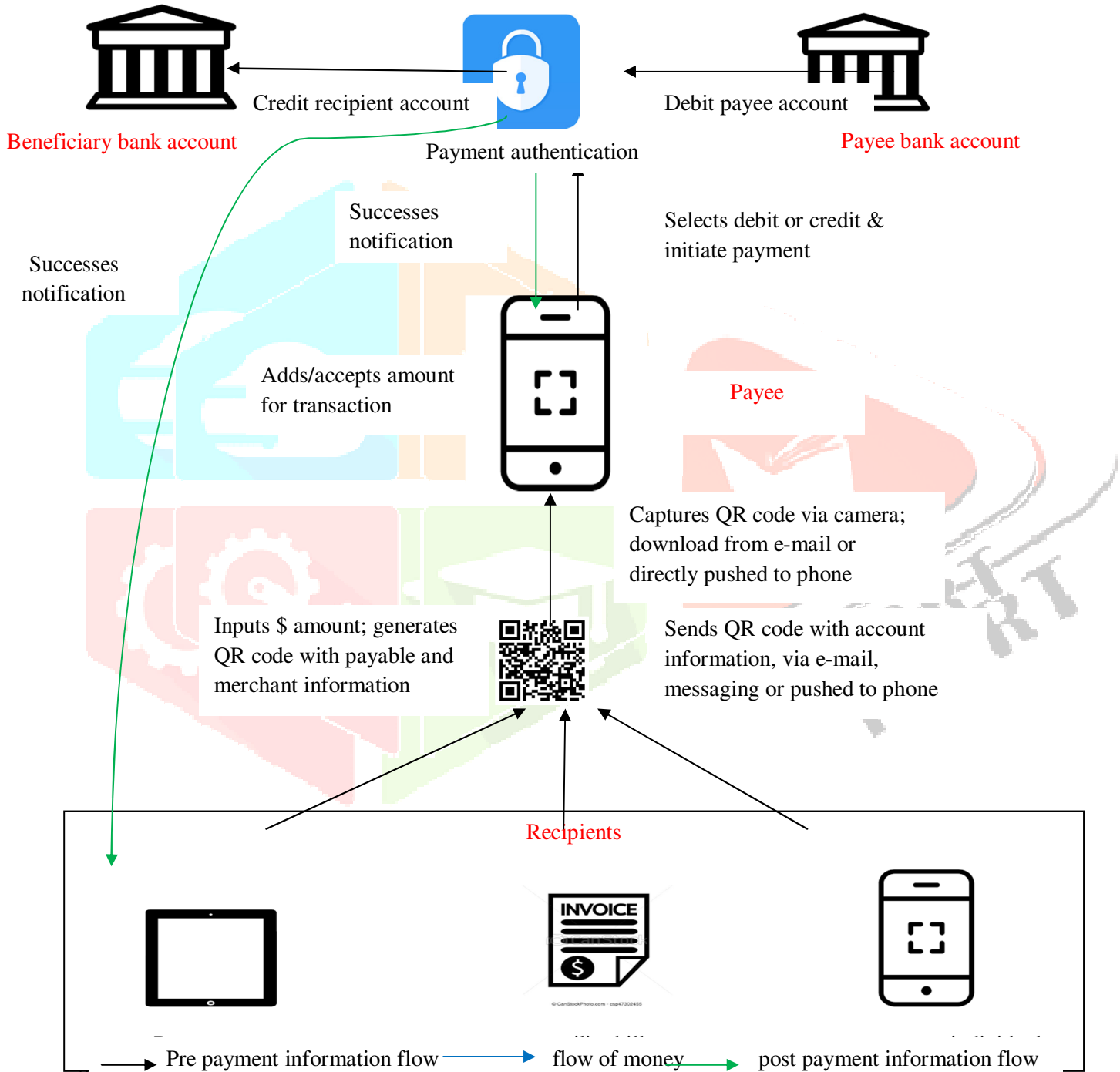
The study is based on secondary sources of data/ information. Different books, journals, newspapers and relevant websites have been consulted in order to make the study an effective one. The study attempts to examine the Impact and Importance of Cashless Transaction in India.

**4.1 What is Cashless Transaction:-** "A cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal." A Cashless Society describes an economic state whereby financial transactions are not conducted with money in the form of physical banknotes or coins, but rather through the transfer of digital information (usually an electronic representation of money) between the transacting parties.

**4.2 Process of Cashless Transaction:-** In this increasingly digital world, it's not surprising that money will follow suit as well. Recent trends show that digital money kept in mobile wallets will soon replace physical cash and even credit cards. Below given example of cashless transaction process:-

INSTANT AND CASHLESS PAYMENT

RECONCILIATION, CLEARING AND SETTLEMENT



- 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.

#### **4.4 Impact of Cashless Transaction:-**

##### **4.4.1. Business Process:-**

The impacts of Cashless Transaction on the Business sector are as following:

- Businesses are legally strong.
- Proper audit. Not hidden excess liability.
- Increase use of e-payment.
- Wallet hold business gets an advantage

#### 4.4.2. Education Process:-

The impact of Cashless Transaction on the education sector is likely to be minimal. Some of the foreseeable fallouts of demonetization on the Indian education sector are as following:

- The decision of the central government to withdraw high-value bank notes to curb unaccounted cash will hurt education institutions that accept donations or capitation fees for admissions.
- Accepting and accounting donations will become difficult because of the demonetization drive. Education sector was not immune to the Indian theory of 'you can buy everything with money'. This move of demonetization will definitely curb this mentality of many in the country.
- Nursery admissions, private education institutions and professional higher education including medical and engineering are the segments which accept donations widely. For the first time, these segments are going to feel the impact in a big way.
- Private educational institutions take huge amount of donations in Cash which is 40% to 50% more than the fees of the course. We expect that demonetization will impact the recipient.
- Admissions in private educational institutions and medical college admissions comes tagged along with donations without a glitch. The donation in medical colleges is usually more than 100% of the fees. Demonetization will impact both admissions and also the receipt.
- MBBS seats in some colleges go for Rs40 lakh to Rs60 lakh, while MD seats have a range of Rs 2 crore price tag on it. Similarly, engineering and management stream seats have a price tag between Rs 2 lakh to Rs 10 lakh each. This move can change the course of expensive education which can be made more affordable devoid of the capitation fee.

#### 4.4.3. Economic Growth:-

The impact of Cashless Transaction on Economic Growth in India is as following:

- According to the Bank, India's growth in the first half of FY 2017 was underpinned by robust private and public consumption, which offset slowing fixed investment, subdued industrial activity and lethargic exports.
- The medium-term may be liquidity expansion in the banking system, helping to lower lending rates and lift economic activity," the World Bank noted.

#### 4.4.4. Impact of Information Technology in cashless economy:-

- The impact of Information Technology on in cashless economy in India is as following:
- Because of information technology the cost of bank will reduce that will result in lower service charges for customers.
- Making Transaction is very easy by using information technology.

- New IT Technology like biometric are help to do secure and transparent transaction.

## RESULTS AND FINDINGS

### **FUTURE PROSPECTS OF CASHLESS PAYMENTS IN INDIA:**

Smooth, simple and secure payment processes will help to bring about behavioral changes and faster adoption of digital payments and banking among un-banked segments. When new players enter the market, each with a slightly different take on the market and with differing business models, the increased competition will help the environment and offer more options for consumers to choose from. A larger pie with more players is definitely good for the changing dynamics of the payments industry, which is still nascent in India.

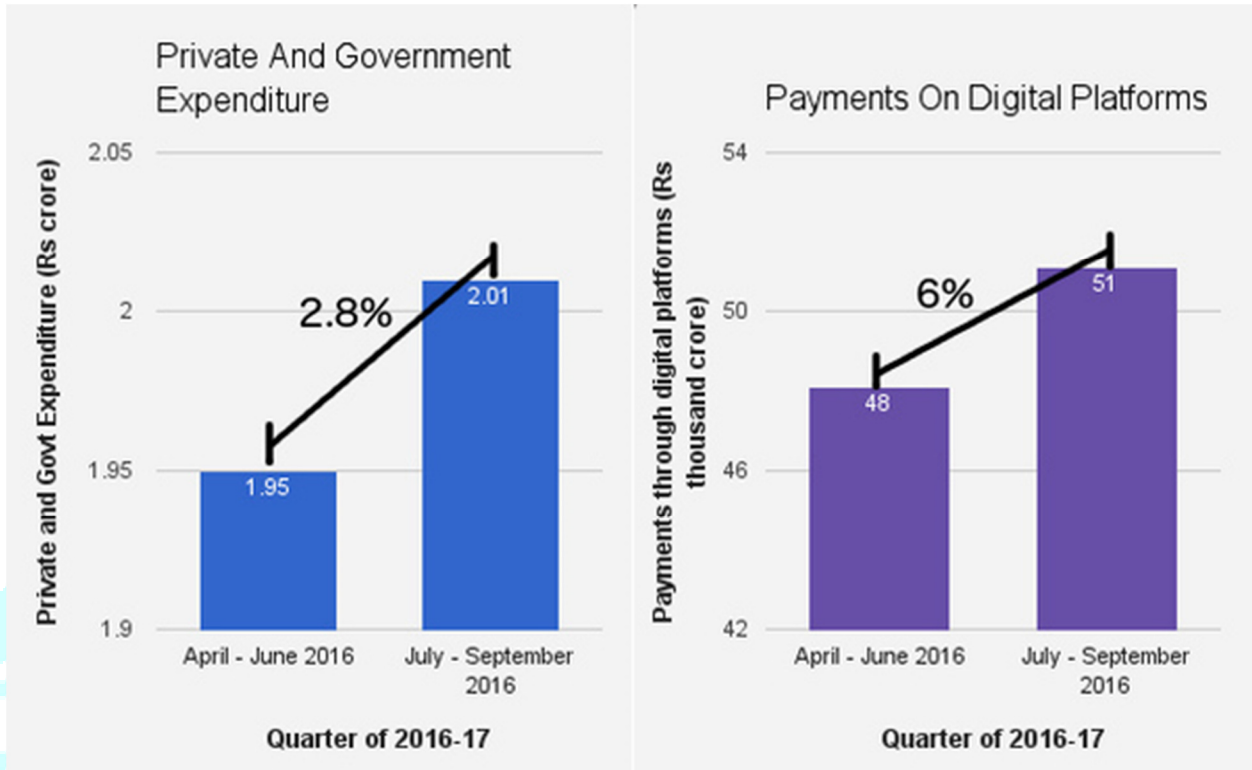
Indian consumption is still dominated by cash, with cards contributing only 5 per cent of the personal consumption expenditure. In developed countries, 30-50 per cent of spends happen through cards. So there is huge growth opportunity.

The rapid growth of Smartphone's, Internet penetration and e-commerce is complementing these; card payment volumes have been growing in excess of 25 per cent y-o-y. We expect this trend to continue, aided by the continued increase in debit card activation and usage; debit card transactions have been growing at 31 per cent each year.

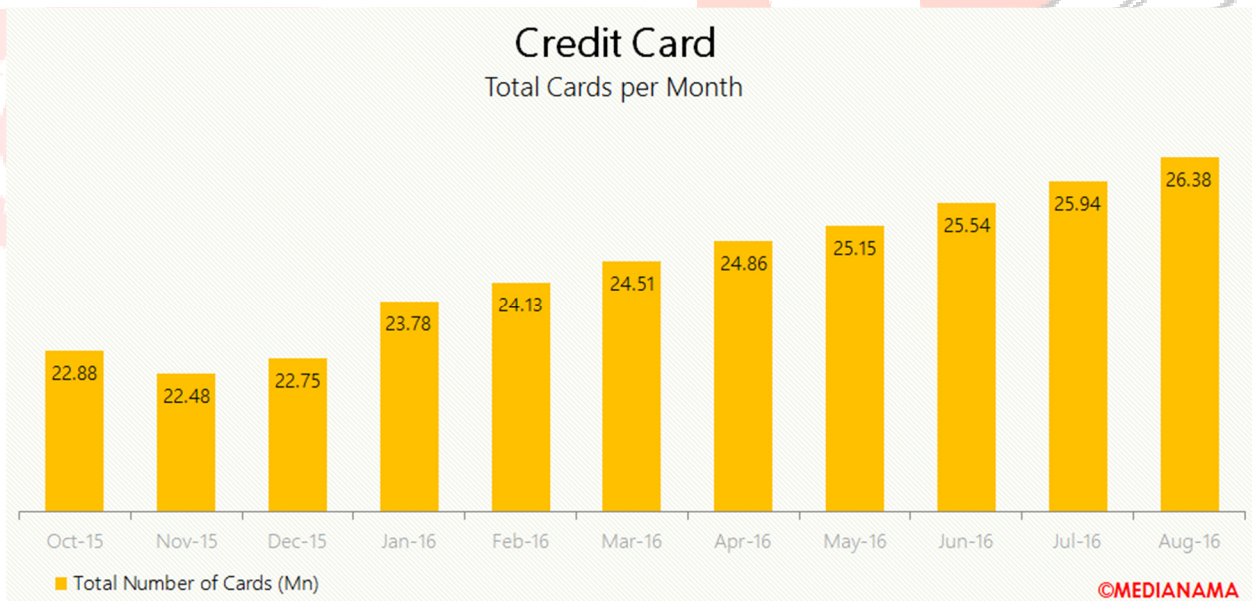
Intense competition and strategic collaboration among existing and new market participants like the payments and small banks and wallets will help scale up acceptance and foster more creativity, innovation and consumer choice. According to him, the future holds exciting times for the payments industry in India, as all stakeholders and regulatory authorities come together to achieve a "less-cash dependent" and eventually "cashless" society.

The credit card industry in India sees greater acceptance among consumers this year. According to Worldline India Card Payment Report 2014-15, the credit card base grew at 9.8 per cent in the past year. Worldline India is a leader in the payment and transactions services in the country. Alternative methods like mobile wallets and prepaid cash cards accounted for 3 per cent of digital transactions. This industry has been growing steadily over the past few years. Card transactions, both by debit and credit cards, are on an upward trajectory. There are interesting dynamics at play in the Indian payments industry.

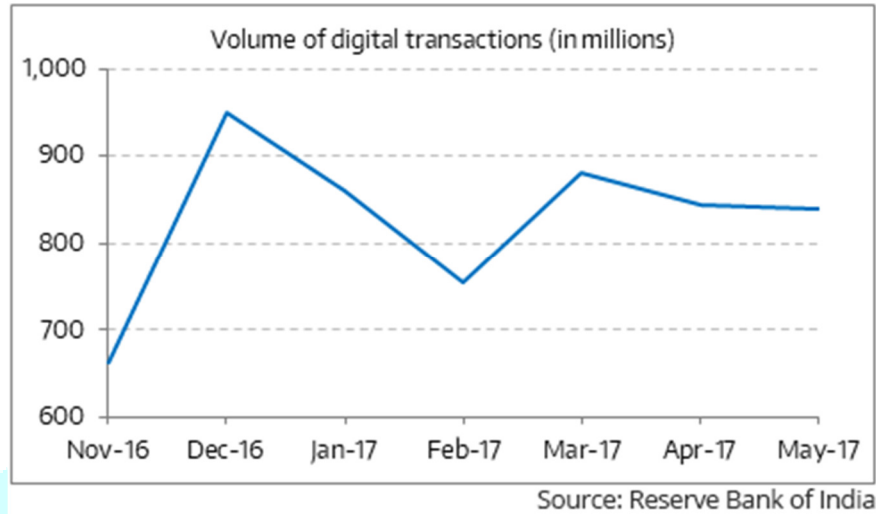




2016 the year of cashless transactions



Usage of credit cards after demonetization

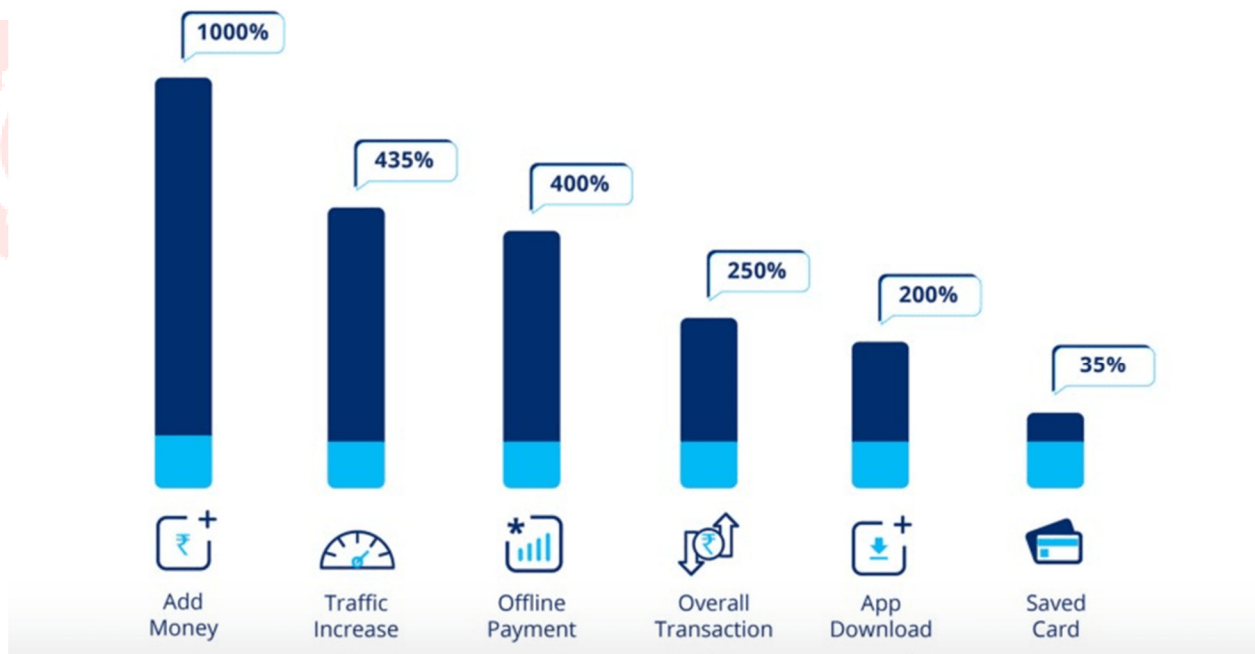


Volume of digital transaction after demonetization



**Day 01**  
09<sup>th</sup> November

**Increase** in Paytm usage in comparison to the **average daily usage**



### Use of Paytm after demonetization

According to the above graphical representation and pie charts it is clear that after demonetization India is going towards cashless mode of transaction hence its shows a huge scope of development of India and requirement of cashless transaction in future. After demonetization i.e. from NOV-2016 e-wallet payment is more preferred by customers than any other



payment method. According to a survey conducted by Cash-Karo India, 1% users preferred cash as payment method, 18% for debit/credit cards, 23% for net banking, and 59% preferred e-wallet as payment method. And in future also e-wallet system will be preferable.

## VI. 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 modernization 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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