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## CASHLESS ECONOMY IN INDIA HELPS HOLISTIC ECONOMIC GROWTH

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### ABSTRACT:

*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. 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.*



**KEYWORDS :** *Cashless Economy, Demonetisation, Financial Literacy Centres, GST.*

### INTRODUCTION:

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 (Tufts University, The Cost Of Cash In India). 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. To make India a cashless society government has also started various schemes like Digishala, Digital Finance for Rural India, Visaka, Creating Awareness and Access through Common Service Centers (CSCs) and laid down multiple steps such as Unified Payments Interface, Unstructured Supplementary Service Data (USSD) based Mobile Banking, Aadhar enabled payment system (AEPS), Point of sale, National Electronic Funds Transfer (NEFT), Bharat Interface for Money (BHIM), Lucky Grahak Yojana and the Digi-Vyapar Yojana etc. that will be covered in this study, but the main aim of the study is to find out the significant challenges faced by Indians while moving towards cashless society.

## Review of Literature

It was in 1918 when the Federal Reserve Bank used telegraph to move currency for the first time and with the set up of Automated Clearing House (ACH) in 1972 provided the U.S treasury and commercial banks an alternative to process cheque, which led to the revolution of e-payment as Benjamin Graham (2003) noted in his work "Evolution of Electronic Payment." Many researchers over the world have undertaken research, symposia, seminars, journal articles, and lectures to evaluate the system of e-payment. Snorkel and Kwast used the Federal Reserve's 1995 survey of consumer finance and analyzed the effect of demographic characteristics on the likelihood of e-payment instrument usage by households. Carrow and Stanten (1999) investigated the preferences of consumers among debit cards, credit cards, and cash. In October 2005, Wondwossen & T. Segai and G. Kidan (2005) completed their work on e-payment challenges and opportunities in Ethiopia and found; Poor telecommunication infrastructure, Frequent power disruption, People are resistant to new payment mechanisms, Lack of skilled manpower, Unavailability of payment laws, and regulations particularly for e-payment.

## Measures Taken by The Indian Government

**Demonetisation:** Demonetisation drive has not curbed the black money. However, it had nudged India towards being a cashless economy. It has become a radical 'reform' to transform India into a cashless economy. Paytm had witnessed 5 million daily usage post demonetisation as opposed to their average transaction of three million. It also saw a 700% increase in the overall traffic and a 1000% increase in the amount of money added to its account in the first two days of post-demonetisation. Ola Money too saw a 1500% increase in its ewallet. Apart from demonetisation, the government has undertaken various other measures to reduce people's dependence on cash in recent years. Some of them are as follows:

**Pradhan Mantri Jan Dhan Yojana:** one of the biggest financial inclusion initiatives in the world, was launched in 2014. It is a national mission on financial inclusion which has an integrated approach to bring about comprehensive financial inclusion and provide banking services to all households within the country. This scheme ensures access to a range of financial services like availability of basic savings, bank accounts, access to need-based credit, insurance and pension. It has played a significant role in the opening of bank accounts for the poor.

**Direct Benefit Transfer (DBT):** It is a scheme that was launched by the Government of India to transfer the benefits and subsidies of various social welfare schemes like LPG subsidy, Old Age Pension, Scholarship, MGREGA, etc. directly to the bank account of the beneficiaries. This allowed for the penetration of digital banking into rural India.

**Unified Payment Interface (UPI):** It is a system that powers multiple bank accounts into a single mobile application (of any participating banks), merging several banking features, seamless fund routing, and merchant payments into one hood. This makes digital transactions a simplified process. Transaction via UPI had increased the monthly transaction from nil to 754 million in less than 3 years.

**GST:** The implementation of GST has encouraged businesses to opt for cashless transactions.

**Financial Literacy Centres:** The RBI and Finance Ministry have established the Financial Literacy Centres (FLCs), a keystone of the PMJDY. This initiative has provided financial education programmes to spread awareness of banking products and benefits. The RBI has also provided licences to open new-age small finance banks and payment banks which are expected to give a push to financial inclusion and bring in innovative banking solutions. Other promotions like e-banking, debit and credit cards, card-swipe or PoS machines and digital wallets have made the transition to cashless economy easier.

## Cashless Challenges in India

There are many challenges facing the introduction of cashless system of payment in Indian economy. They are as follows:

- **High Cash Dependency** India has a high cash penetration in almost all of its transactions that happen as B2C transactions. Total cash flow in the market accounts for 12.04% of the GDP, which is among the highest in developing countries.

- **Lack of Digital Infrastructure** Lack of adequate infrastructure is a major hurdle in setting up a cashless economy. Inefficient banking systems, poor digital infrastructure, poor internet connectivity. The remote areas are still not having the banks at their doorstep. The banks need to be fully equipped to handle the surge in e-transactions. The first and foremost requirement of a digital economy is the penetration of internet and smart phone. Only 30% of subscriber use smart phones, over 70% of them are in cities while 70% of Indian population lives in villages.
- **Financial Inclusion** About 60% of the country's population has bank accounts. Still large number of people is not having the bank accounts. More than 228 million accounts were opened under PMJDY (Pradhan Mantri Jan Dhan Yojana) scheme.
- **Cyber Security Issues** Another mounting challenge in digital payments is cyber security issues, with the magnitude with which digital transaction-taking place after demonetization the risk of online fraud, leakage, of confidential information, cyber-crimes, malware and virus attacks has been raising. This is the biggest concern to deal with in order to popularize digital payments.
- **Low Literacy Rate** Low literacy rate hinders the accessibility of banking services. Citizens should not only know how to read and write but also possess basic ICT literacy to fully enjoy the benefits of e-payments.
- **Costly Swipe Machines** Swipe machines are also not subsidy free. Rich shopkeepers can only afford it. It cannot be expected from an auto driver or a normal grocery seller to afford swipe card machines. Besides, many street vendors, shopkeepers do not know how to use swipe machines.

### Opportunities of Cashless Economy

The expenditure incurred in printing and transportation of currency notes is reduced. Cash less economy helps in curbing generation of black money.

- **Reduce cost of printing money**

Printing money is the direct cost that affects the bank (Reserve Bank of India). In the cash system of economy where maximum people will work on the cash transaction, government has to produce more and more cash notes.

- **Decreased Crimes**

The risk of theft will continue until people carry cash and by going cashless, the same can be reduced. The government, however, has to take measures to curb the online scam and identity theft incidents.

- **Cost effective to Banks**

Normally, if bank transactions are done manually, it costs nearly Rs. 40 to 45 and the same is done through internet it costs 7 to 8. Simultaneously, it same transactions is done through either U Mobile or ATM it hardly costs Rs. 12 to 14 and Rs. 3 to 4 respectively. Production of coins and paper currency is indeed an expensive endeavor.

- **Safe and Secure**

Safe and Secure Both it is safer for bank and customer as well; it keeps high degree of secrecy. If stolen, it is easy to block a credit card or mobile wallet remotely.

- **Improved Economic Growth**

Improved Economic Growth Shopping online gets easy as one can use a number of payment options; from credit and debit cards to net banking. In addition to this, going cashless also has health benefits. With physical currency, the chance of spreading of germs is more.

- **Control of Black Money**

Control of Black Money and check for Anti money laundry even transactions can be done through e banking but it can be traced while it is very difficult to trace the transactions in cash. There are certain check also in depositing and withdrawing money through bank accounts. Hence, it will definitely control over black money and money laundering in the days to come.

- **Higher Revenue** Higher Revenue a derivative advantage of transparent transactions is collection of tax will increase. Thus generating higher revenue for the government, this in turn will be converted into public welfare policies and schemes.

- **Saves Money and Time**

Presently banking is required good number of staff to attend and redress the complaints at different stages. They can reduce costs, as they no longer need the manual accounting work to be done.

- **Transparency**

It is not just the easiest way to transact but also brings about a lot more transparency in the financial system, which helps to curb generation of black money.

- **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 improve service time.

- **Benefit to Government**

The government will benefit from the cashless economy in the area of adequate budgeting and taxation, improved regulatory services, improved administrative processes (automation), and reduced cost of currency administration and management (Ashike, 2011). Jimi Agbaje, one of the former governorship candidates on the platform of DPA in Lagos State states that the advantages of a cashless society range from regulating and controlling to securing the financial system of our economy.

- **Maintenance Cost**

Maintenance in the form of storage of notes, transportation of the notes to the distant places, security of the notes, and devices for the detection of counterfeit notes. The other major aspect of the maintenance is that the distribution of money through ATM machines at the different locations. It is reported that all this maintenance cost the government about 5% of the GDP of India. In nutshell we can save somewhere around 500 crores by this mean only.

### **More Spending Helps Improved Economic Growth**

When a nation is taking a step towards a cashless economy, a boost in the economic growth can be expected. In countries like US higher card usage has contributed a consumption of about US\$296 billion globally from the year 2011 to 2015 which is a 0.1% increase in the GDP. Shopping online gets easy as one can use a number of payment options; from credit and debit cards to net banking. One can observe more spontaneous buying while making cashless payments.

Countries like Singapore have also witnessed a growth of 0.1 % in GDP which accounts to about S\$400 million per annum. As people spend more, companies need extra staff to handle the demand for goods and services and this, in turn, creates more jobs for unemployed.

In addition to this, going cashless also has health benefits. With physical currency, the chance of spreading of germs is more. Reducing the amount of use of paper currency will reduce the germtransmission as well as it demotivates deforestation and helps in maintaining ecosystem.

The government also needs to take the necessary steps and make some policy considerations when they are preparing for a cashless economy. The payment systems have to be protected from the cyber-attacks which are the major threat for cashless transactions. Also, the government should be able to serve the underbanked as well. Everyone from the society should have access to an electronic system that they can use for such transactions.

### **CONCLUSION**

Indian economy is cash-dependent: India is much dependent on cash, so much so, that the MNCs like Amazon had to include "cash on delivery" to penetrate the Indian market. Rural India's adaptation to new technologies is slow. This is a major concern for India's aspiration to become a cashless economy. What can be the way forward? Targeted financial education drive can be undertaken by the government to improve the knowledge of e-transactions to the public, even the illiterate. The banks must make sure that the transaction fee is either free or affordable to all. The banks must encourage the

opening of zero balance accounts to encourage the poor to make use of the bank accounts. The government must improve internet connectivity in rural India and other isolated regions. Supporting infrastructures must be assured like the availability of ATMs in the rural and suburban areas as the availability of bank accounts alone cannot address the problem of India being overly dependent on cash.

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