

# Cashless Economy In India Its Benefits And Challenges

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## ABSTRACT:

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.

The recent move of demonetization has rattled the drastic change of cash based economy and forced the people to rethink the movement of transactions and trade.. Now it is a way to promote cashless transactions among citizens, which is really a good idea for the country..

**KEYWORDS:** Cashless Economy, NEFT, RTGS, Cards payment, E-wallets, UPI Apps

## INTRODUCTION:

The term "cashless society" in the sense of a move towards, and implications of, a society where cash is replaced by its digital equivalent - in other words, legal tender (money) exists, is recorded, and is exchanged only in electronic digital form. Cashless societies have existed, based on barter and other methods of exchange, and cashless transactions have also become possible digital currencies .

**Demonetization** is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency: The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. India has a large amount of black money. According to recent estimates around 1/4th of Indian GDP is the shadow economy of India, which is like a parallel dimension slowly sucking out energy and matter from our dimension (economic ecosystem). However, one thing needs to be made clear that of all the black money in India only 10% of it is in hoarded cash and the rest is in floating in the market or is in form of gold, stocks or real estate. The success or failure of demonetization as a means to curb black money and fake currency can only be determined after a couple of months but the fact that digital economy is good for the country, is overwhelmingly accepted as true.

## SIGNIFICANCE OF THE STUDY

This paper highlights the various benefits and challenges faced by the society in Cashless Economy.

## RESEARCH METHODOLOGY

The paper prepared is of descriptive nature, and the methods of data collection is through Secondary sources like publishes articles , journals, books , magazines, websites.

## OBJECTIVES OF THE STUDY

1. To look into the current framework of Cashless economy.
2. To understand the benefits of Cashless India.
3. To understand the challenges of Cashless India.

## Types of cashless payments

### 1. Online Transfer- NEFT or RTGS

The third simplest method for the cashless transaction is online transfer using NEFT or RTGS. In order to do online money transfer, you need internet banking facility. Online transfer using NEFT or RTGS is comparatively faster than cheque or DD. Online transfer can be done from anywhere using internet facility.

### 2. Credit Card or Debit Card

Credit card or debit card is another cashless payment method. The usage of credit card and debit card was limited in India. However, usage of credit card and debit card is increasing now. The limitation of this payment method is an availability of swipe card facility (PoS) at merchant end.

### 3.E-Wallets

E-wallet is next cashless payment option. E-wallet can be used to purchase products starting from grocery to airline tickets. In order to use E-wallets customer and merchant, both require a smart phone with active internet connection. The most popular example of E-wallet is PayPal. Apart from PayPal, you can also use Pay oneer, Transfer wise, Skrill, and PayZa. After registering for E-wallet you need to link your credit card or debit card with your E-wallet id. You can use e-wallet for fund transfer or online shopping. It is a simplest cashless method.

### 4. UPI Apps

UPI is a mobile payment system which allows you to do various financial transactions on your smartphone. UPI allows you to send or receive money using virtual payment address without entering bank information. Merchants can enroll with banks to accept payments using UPI. Like in

the case of a PoS machine, the merchant would require a current account with a bank to accept UPI payments. The examples of few UPI Apps are SBI Pay, ICICI Pocket, Axis Pay UPI App, Union Bank UPI App, PNB UPI, PhonePe, TranZapp etc

## BENEFITS OF CASHLESS ECONOMY

1. **Reduced Maintenance Costs:** The logistics and supply chain of cash is costing the exchequer a fortune. The amount of money required in printing cash, its storage, transportation, distribution and detecting counterfeit currency is huge.
2. **Transparency in Transactions:** Needless to say, electronic transactions or plastic money always leaves a digital proof beneficial for both the taxpayer (consumer) and the tax collector (government).
3. **Higher Revenue:** A derivative advantage of transparent transactions is collection of tax will increase. Thus generating higher revenue for the government, which in turn will be converted into public welfare policies and schemes.
4. **Financial Inclusion:** The will to have a cashless economy will promote financial inclusion of the people. It will compel the government to connect all the households with a bank and plastic economy.
5. **Lower Transaction Costs:** Digital transaction is a boon in terms of processing costs and waiting time. If implemented properly, it will increase the consumption and production rates, thereby improving the economy.

## CHALLENGES AHEAD

However, in a country of 1.3 billion people, not all is perfect and not all is rosy. Going cashless must be an exponential curve, slow initial buildup then fast paced in later stages, not a digital step signal. That could be counterintuitive to the whole process. India is a large country that needs a change that is systemic and systematic. Here is a list of challenges:

- ✓ **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. This goes to show our dependence on cash is acute and it requires time to tackle it.
- ✓ **Lack of Digital Infrastructure:** The first and foremost requirement of a digital economy is the penetration of internet and smartphone. Although a billion mobile subscriptions (not users), only 30% of subscribers use smartphones. With 370 million mobile internet users, over 70% of them are in cities while 70% of Indian population lives in villages.

- ✓ **Skepticism in Merchants:** Small time merchants as well as users have high amount of suspicion over plastic money and they need to be educated over the potential benefits of using it. One cannot expect an overnight change in the perception of a majority of Indians over the use of plastic money. Government needs to come out with awareness and incentive schemes to promote digital economy.
- ✓ **High Merchant Discount Rate:** These are the percentage deducted from each purchase a merchant makes by the card issuing authority or bank. These are volume dependent and are more economical if the merchant is able to sell a large amount of products, thereby beneficial for big merchants. For smaller merchants, it does not provide enough incentive to make the shift from cash.
- ✓ **Currency dominated economy:** High level of cash circulation in India. Cash in circulation amounts to around 13% of India's GDP.
- ✓ **Transactions are mainly in cash:** Nearly 95% of transactions takes place in cash. Large size of informal/unorganised sector entities and workers prefer cash based transactions. They don't have required digital and fintech literacy.
- ✓ **ATM use is mainly for cash withdrawals and not for settling online transactions:** There are large number of ATM cards including around 21 crore Rupaya cards. But nearly 92% of ATM cards are used for cash withdrawals. Only low level of digital payment using ATM cards. Multiple holding of cards in urban and semi-urban areas show low rural penetration.
- ✓ **Limited availability of Point of Sale terminals and poor transaction culture in POS:** According to RBI, there are 1.44 million POS terminals installed by various banks across locations at the end of July 2016. But most of them remains in urban/ semi-urban areas.
- ✓ **Mobile internet penetration remains weak in rural India:** For settling transactions digitally, internet connection is needed. Bu in India, there is poor connectivity in rural areas. In addition to this, a lower literacy level in poor and rural parts of the country, make it problematic to push the use of plastic money on a wider scale

## CONCLUSION

Using cashless transactions is good, easy and very convenient, but you should also know more about how digital payments work. If you are not alert on the security measures of your banking details, then it can destroy the entire financial balance. The main reason of introducing the system of being cashless is to eradicate Black money completely. With this system got introduced overnight made people become poor. In spite of the challenges in using this system, it proves to be advantageous to people all over. It is the duty of the government to take further measures in also educating the people from various background so that they get benefited by this.

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