

Emerging trends of digital transactions replacing cash transactions in India – An empirical Study

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Abstract:

Digital economy is the buzz word across the globe. Don Tapscott coined the term “ Digital economy” in his best seller ‘ The digital economy and perils in the age of network intelligence’. This steering of economy towards becoming digitized now aims at converting everyday cash transactions by the citizens into a cashless transactions. It’s a shift in not only technology but also a shift in the behavior as well. Everyone by now has availed internet or digital technology for some service or the other. Cashless economy or cashless means all the transactions carried out between two individuals will occur by payment through payment gateways or through the plastic money. It is done with the primary aim of uncovering the non-registered transactions. The Indian government with another aim to promote the economy through non-cash transactions has introduced mediums such as: Banking cards, USSD, AEPS, UPI, Mobile Wallets, Banks Pre-Paid Cards, Point of Sale, Internet Banking, Mobile Banking, Micro ATM’s

This paper aims to discuss why India has to become cashless economy, Pros and cons of cashless digital economy and throws out the challenges faced while transforming to digitalize the transactions.

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Introduction:

India continues to be driven by the use of cash; less than 5% of all payments happen electronically, the idea of making India a cashless economy is aimed of curbing the flow of black money. 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 the study conducted by Tuffs University, The Cost of Cash in India , Cash operations cost the RBI and Commercial Banks about Rs 21,000 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.

It is estimated that the potential for cashless payments are majorly by households in India. Through an extensive household survey across 8 cities(4 metros) involving 3066 households, the

bottlenecks which prevent households to make non cash payments were identified. It is identified that 1.38% of all household expenses are done through non cash instruments (2.92% in urban and 0.55% in rural).

Need for the study;

This steering of economy towards becoming digitized now aims at converting everyday cash transactions by the citizens into a cashless transactions. It's a shift in not only technology but also a shift in the behavior as well. Everyone by now has availed internet or digital technology for some service or the other. This paper aims to discuss why India has to become cashless economy, Pros and cons of cashless digital economy and throws out the challenges faced in ontaken to digitalized the transactions.

Review of Literature:

Review of literature paves way for a clear understanding of the areas of research already undertaken and throws a light on the potential areas which are yet to be covered. Keeping this view in mind, an attempt has been made to make a brief survey of the work undertaken on the field of Cashless economy. The reviews of some of the important studies are presented below.

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. According to Woodford (2003), Cashless economy is defined as one in which there are assumed to be no transactions frictions that can be reduced through the use of money balances, and that accordingly provide a reason for holding such balances even when they earn rate of return. In a cashless economy, how much cash in your wallet is practically irrelevant.

You can pay for your purchases by any one of a plethora of credit cards or bank transfer (Roth, 2010) observed that developed countries of the world, to a large extent, are moving away from paper payment instruments toward electronic ones, especially payment cards. Some aspects of the functioning of the cashless economy are enhanced by efinance, e-money, e-brokering and e-exchanges. These all refer to how transactions and payments are effected in a cashless economy (Moses-Ashike, 2011).

Marco and Bandiera (2004) argue that increased usage of cashless banking instruments strengthens monetary policy effectiveness and that the current level of e-money usage does not pose a threat to the stability of the financial system. However, it does conclude that central banks can lose control over monetary policy if the government does not run a responsible fiscal policy.

According to a 2015 report by Price Water House Coopers, India's unbanked population was at 233 million. Even for people with access to banking, the ability to use their debit or credit card is limited because there are only about 1.46 million points of sale which accept payments through cards.

Firms embracing digital technology are found to be earning more profit in the business in comparison to all their counterparts (Malone et al 1987, Mukhopadhyaya et al 1995) . The new economy that will be created all about coordination, innovation, selection and learning (Gardin, 2002). It is more based on innovation, creativity selection and learning (Persaud, 2001).

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Digital economy will be all about use of information in some form (Gardin, 2002). Benefits offered by digital economy are unevenly distributed among the society(Bouwmann, 1999).

According to Lindsey Anderson and Irving Wladawsky- Berger four main aspects are required to succeed in cashless economy.

- a) Customer expectations- which keeps on improving and getting better but then, expectations have increased manifold.
- b) Product enhancements- digital technology has created a new set of industry altogether. Above all, no industry interface seems to be untouched.
- c) Collaborative innovations such as Paytm and Uber after Uber's job is over (customer reaching destination) Paytm takes over (payment for the ride).
- d) Organization forms – Here they opine that market needs to have strategies for restructuring and create new organizational culture to better manage global expectations.

Objectives of the study:

Objectives of present study are as follows:

1. Need for India to become cashless economy,
2. Pros and cons of cashless digital economy and throws out the Challenges to digitalize the transactions.
3. To assess the preparedness for the implementation of the cashless economy by Indian Government.

WHAT IS CASHLESS?

Cashless economy or cashless means all the transactions carried out between two individuals will occur by payment through payment gateways or through the plastic money. It is done with the primary aim of uncovering the non-registered transactions. The Indian government with another aim to promote the economy through non-cash transactions has introduced mediums such as: Banking cards, USSD, AEPS, UPI, Mobile Wallets, Banks Pre-Paid Cards, Point of Sale, Internet Banking, Mobile Banking, Micro ATM's

Reducing the economy's dependence on the cash and making it more deviated towards these mediums would result into the betterment of the country and the economy.

IMPORTANCE:

The cashless economy has importance attached to it in the following ways:

The cashless economy needs to be present as the financial year of 2015 experienced the hefty amount of Rs. 21,000 crores just on the printing of the cash into the economy

The other need for the cashless economy can be studied by the benefits the economy accrues as mentioned below:

Benefits of Cashless economy:

The following are the benefits identified when the economy transforms into cashless economy

1. It will curb generation of black money and It will also reduce real estate prices because of curbs of black money, as most of black money is invested in real estate which inflates the price of Real estate markets.
2. Reduced instances of tax avoidance because it is financial institutions based economy where transaction trails are left.
3. There will be a efficiency gains as transaction costs across the economy should also come down, operating costs of ATMs will also reduce
4. There will be a greater efficiency in welfare programs as money is wired directly into the accounts of recipients. Thus once money is transferred directly into beneficiary bank account, the entire process becomes transparent. Payments can be easily traced and collected, and corruption will automatically drop, so people will no longer have to pay to collect what is rightfully theirs.
5. In a cashless economy there will be no problem of soiled notes or counterfeit currency. Soiled, tobacco stained notes full of germs are a norm in India. There are many such incidents in our life where we unknowingly give and take germs in the form of rupee notes.
6. Speed and satisfaction of operations for customers, no delays and queues, no interaction with bank staff required. Making online payments are handy and it will lead to slim wallets as people need not carry cash.
7. Electronic payments will help business people to boost their customer base even in far of geographic locations and hence will result in enhanced business
8. Electronic payments will improve transparency and accountability. Most of the cashless societies are corrupt free as all the transactions are being traced, are visible and are transparent.

9. Majority of election funding is done through Black money. Cashless transactions will make it impossible for political parties to spend thousands of crores of unaccounted money on elections. Buying votes by giving cash will also come to an end. True democracy will come into picture.
10. Amount of tax collected will also increase, and it can be spent for the betterment of poor and under privileged people.
11. Generation of counterfeit currency will be reduced and hence terrorism can be prevented.
12. It will reduce pickpocketing and robbery of cash in crowded locations.
13. Through online payment one can view history of their expenses and plan their budget in a smart way.
14. Printing costs of notes and maintenance itself is accounting to 27 billion; this can be removed by electronic payments as there would be no need of paper currency

Our Prime Minister Narendra Modi's report pegged the impact of electronic transactions to 0.8% increase in GDP for emerging markets and 0.3% increase for developed markets because of increased velocity of money.

An increased use of credit cards instead of cash would primarily enable a more detailed record of all the transactions which take place in the society, allowing more transparency in business operations and money transfers.

Cons of Cashless economy in India

1. Many of the rural people and even some urbanites still do not have a functional bank account in order to make online payments.
2. A majority of Indian population is in rural locations, and there are no proper internet facilities available to make online payments.
3. People in rural areas are not educated about the digital mode of payments.
4. There are still some places which take cash and do not accept cards. Making a purchase at such locations with card becomes difficult. Small retailers in India still deal only in cash as they cannot afford to invest in digital infrastructure.
5. If you lose your debit/credit card, it takes some time to get a new one.
6. Hacking and cyber theft are challenging problems which can be caused by online transactions. Cyber Security measures have to be brought in place to prevent money going into wrong hands.

7. Even in big cities, sometimes online transactions cannot be made because of poor internet facilities.

Challenges in making India a cashless economy:

There are number of hurdles in making India a cashless economy.

- 1 .Digital Literacy: More than half of the nation still does not know how to use a computer. People in rural areas still don't know about smart phone. Besides, there is lack of internet facilities and without it a country cannot become cashless. There are still many rural and urban areas where there the access of having 2G network is very difficult. Moreover, the cost of Internet access is very high as compared to developed countries.

2. Few Banks in villages: There are several villages and Tehsils that don't even have one. More the banks, more the cash deposits in accounts. Banks in villages should be helpful in teaching the residents the process, usage and benefits of plastic cards.

3. 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.

4. Language Barrier: Internet is an English based platform. The details on the plastic card are also in English. The message received on mobile regarding transaction is also in English. Therefore, it is required to use multiple languages regarding these processes or make everyone learn English.

5. Costly Swipe Machines: Swipe machines are also not subsidy free. It can only be afforded by rich shopkeepers. It can't be expected from

- 6.A large part of the population is outside the banking net and not in a position to reduce its dependence on cash. According to the report in 2015 by Pricewaterhouse Coopers, India unbanked population was at 233 million. Even for people with access to banking, the ability to use their debit or credit card is limited because there are only about 1.46 million points of sale which accept payment through cards

7. About 90% of the workforce, this produces nearly half of the output in the country works in the unorganized sector. It will not be easy for the informal sector to become cashless.

8. India is dominated by small retailers. They don't have enough resources to invest in electronic payment infrastructure.

9. There is a general preference for cash transactions in India. Merchants prefer not to keep records in order to avoid paying tax and buyers find cash payments more convenient. Although cashless transactions have gone up in recent times, a meaningful transition will depend on a number of things such as awareness, technological developments and government interventions.

Steps taken by the Government of India and RBI towards Cashless economy:

In a country like India where cash is more pervasive it requires sometime for India to take a transition towards Cashless economy. Meanwhile the government of India has to address many challenges to meet the objectives of cashless economy. The government has to provide internet facilities and financial literacy to all its people. While a cashless economy is still not here, the move towards less cash economy is on the move.

The steps taken by the RBI and Government of India towards cashless economy.

1. Government is promoting mobile wallets. Mobile wallets allow users to instantly send money, pay bills, recharge mobiles, book movie tickets, send physical and e-gifts both online and offline.
2. Promotion of e-commerce by liberalizing the FDI norms for this sector.
3. Government has also launched UPI which will make Electronic transactions much simpler and faster
4. Government has also withdrawn surcharge, service charge on cards and digital payments
5. Abolishment of government fees on credit card transactions, reduction of interchange fee on card transactions
6. Tax rebates for consumers and for merchants who adopt electronic payments
7. Making Electronic payment infrastructure completely safe and secure so that incidents of cyber crimes could be minimized and people develop faith in electronic payment system.
8. Creating a culture of saving and faith on financial system among the rural poor.

Conclusion:

Though it will take time for moving towards a complete cashless economy, efforts should be made to convert urban areas a cashless economy. As 70% of India's GDP comes from urban areas if government can convert that into cashless it will be huge gain. Therefore different strategies need to be planned for migration of cashless for those having bank account and for those not having.

We have to embrace the truth that the stage of payment system development in a country, to a large extent depends on the adoption of technology, introduction of new payment instruments and the confidence of the public in using these payment instruments. In India, cash still continues to be predominant payment mode. Hence technology must be harnessed in the most appropriate way to utilize the full potential.

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