



**Research Article**

**INDIAN ECONOMY: A SHIFT FROM CASH TO CASHLESS**

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**ABSTRACT**

India is the land of Lilliput where the market is composed of lots of small consumers and small suppliers. The economy, though large, is made up of numerous consumers spending in small amounts along with a relatively smaller population with larger expenditures. Cash is seen to be a means of control and discipline over spending. It is more convenient and it is often a better weapon to bargain with. It is often observed that even among those who regularly engage with the formal financial system, use of cash as a medium of exchange dominates over the use of alternative forms of exchange such as plastic money and internet banking. After demonetization there has been a shift in the mode of payment of people from cash to cashless. This paper points out the various objectives of being cashless and studies the different methods of cashless payments. It also highlights the awareness of cashless modes of payments among consumers.

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**INTRODUCTION**

Collin Clark in his book "Conditions of Economic Progress" agrees that there is close relationship between development of the economy on one hand and occupational structure on the other and economic progress is closely associated with certain distinct necessary and predictable changes in the occupational structure. Recent years have witnessed a growing optimism about the potential for Indian economic growth. India's growth has accelerated over the past two decades. And while its growth rate remains well below that of China, this favorable performance contrasts with the slowing of growth in other regions. It has also enabled the emergence of a significant middle class in India.

Prime Minister, Mr. Narendra Modi stated, "We want to have one mission and target: Take the nation forward – Digitally and Economically." With this mission in mind the Government of India launched the Programme 'Digital India' in 2015 with a vision to transform India into a digitally empowered nation and with the initiative such as 'Digishala' the government aims at building a conducive ecosystem for cashless economy. Earlier in India, only 7% to 8% of all the payments were done electronically but with the advent of Digital India programme the Indian economy is moving from cash to cashless economy. The RBI and the Government are making several efforts to reduce the use of cash in the economy by promoting the digital/payment devices including prepaid instruments and cards.

RBI's effort to encourage these new varieties of payment and settlement facilities aims to achieve the goal of a 'less cash' society. With limited cash in hand and an indefinite crunch in sight, most people are rushing to cashless transactions.

**Objective of the study**

**The objectives of the study are**

- Introduction to cashless economy
- Focus on the various cashless modes of payments
- Highlight the various advantages of cashless economy
- Analyze the awareness and usage of cashless modes of payments among consumers pre and post demonetization
- Highlight the Government efforts towards Cashless Economy

**METHODOLOGY**

Research is a descriptive research based on secondary data. Quantitative study is done to draw conclusions. Graphs and charts are used to represent the necessary information and interpretation has been provided below the graphs and charts.

**What is Cashless Economy?**

A cashless economy is defined as a situation where there is very little flow of cash in the society and thus much of the purchases are done by the electronic media. It does not refer to an outright absence of cash transactions in the economic setting but one in which the amount of cash-based transactions are kept to the barest minimum. It is an economic system in which transactions are not done predominantly in exchange for actual cash. The term less cash society and cashless transaction

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economy indicate the same thing of reducing cash transactions and settlement rather doing transactions digitally. .

**Efforts towards cashless transaction economy**

The RBI and government have launched several measures for the spread of electronic and other non-cash settlement culture. The Vision-2018 for Payment and Settlement Systems in India brought by the RBI in June 2016 reiterates the commitment to encourage greater use of electronic payments by all sections of society so as to achieve a “less-cash” society. “The broad contours of Vision-2018 revolve around five Cs-coverage, convenience, confidence, convergence, and cost. To achieve these, Vision-2018 will focus on four strategic initiatives such as responsive regulation, robust infrastructure, effective supervision and customer-centricity,” – RBI. The vision statement highlights following plans:

- The regulator wants to reduce the share of paper-based clearing instruments
- It aims to raise growth of the digital payments space
- It wants to ensure accelerated use of Aadhaar in payment systems

Exempting service charge on card-based and other digital payments was one such step. The technology has spread internet banking, mobile banking, prepaid instruments, credit and debit cards etc. and at the same time, electronic payments system is fast growing. All these indicate that India is moving towards the RBI’s goal of less cash economy-steady but slowly.

**Pre and post Demonetization Digital trends of payments**

The digitization and demonetization in the Indian Economy, has led to huge transformation in the market dynamics. Unlike the pre-demonetization period where very few merchants and consumers were using the digital payment solutions, post-demonetization has seen exponential growth in the number of users using digital payment interface. Timed issuance of payment banks, easing the norms of mobile wallet transactions, increasing the bandwidth to rural locations, and government encouraging public with incentive schemes for using the UPI (United Payment Interface), reducing the service tax over digital transactions over government e-services signify that there is huge transformation taking place towards digital payments.

**Pre and post Demonetization Digital trends of payments**

The table below shows that more people opted for non-cash modes when cash-shortage was at its peak, even for small transactions. Post this, a part of this group has continued to use non-cash instruments while others returned to good old cash. Trends in digital transactions have begun to stabilize and no doubt there is a growth in India’s digital journey.

Digital payment transactions in Rs billion							
System	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17
RTGS	101894	110980	100603	95267	154095	111744	113313
Cheque Truncation System (CTS)	5419	6812	6618	5994	8063	6991	6746
EFT/NEFT	8808	11538	11355	10878	16295	12156	12411
Immediate Payment Service (IMPS)	325	432	491	482	565	562	586
National Automated Clearing House (NACH)	607	627	541	654	899	972	761
Credit card usage at POS	266	311	327	287	334	331	361
Debit card usage at POS	322	580	490	358	357	375	375
Prepaid Payment Instruments (PPIs)	51	98	110	96	107	104	107
Mobile wallet	33	74	84	69	73	74	72
PPI cards	15	21	24	25	31	27	33
Mobile banking	1366	1498	1383	1280	1731	1612	2133
Total	119105	132972	122027	115390	182549	134948	136897

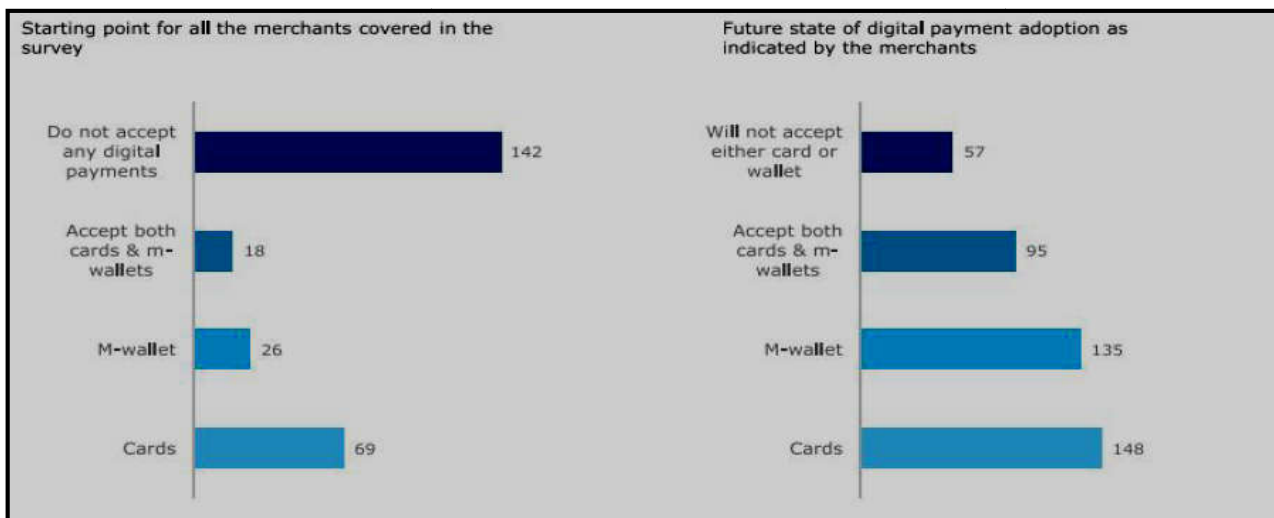
Source: RBI Bulletin

**Various modes of Digital payment**

The Digital India programme is a flagship programme of the Government of India with a vision to transform India into a digitally empowered society and knowledge economy. “Faceless, Paperless, Cashless” is one of professed role of Digital India. As part of promoting cashless transactions and converting India into less-cash society, various modes of digital payments are available.

**Banking Cards (Debit/Credit)**

Banking cards offer consumers more security, convenience, and control than any other payment method. The wide variety of cards available – including credit, debit and prepaid – offers enormous flexibility, as well. These cards provide 2 factor authentications for secure payments e.g secure PIN and OTP. RuPay, Visa, MasterCard are some of the example of card payment systems. Payment cards give people the power to purchase items in stores, on the Internet, through mail-order catalogues and over the telephone. They save both customers and merchants’ time and money, and thus enable them for ease of transaction.



### Unstructured Supplementary Service Data

The innovative payment service \*99# works on Unstructured Supplementary Service Data (USSD) channel. This service allows mobile banking transactions using basic feature mobile phone, there is no need to have mobile internet data facility for using USSD based mobile banking. It is envisioned to provide financial deepening and inclusion of under banked society in the mainstream banking services. \*99# service has been launched to take the banking services to every common man across the country. Banking customers can avail this service by dialing \*99#, a “Common number across all Telecom Service Providers (TSPs)” on their mobile phone and transact through an interactive menu displayed on the mobile screen. Key services offered under \*99# service include, interbank account to account fund transfer, balance enquiry, mini statement besides host of other services.

### Aadhar Enabled Payment System (AEPS)

AEPS is a bank led model which allows online interoperable financial transaction at PoS (Point of Sale / Micro ATM) through the Business Correspondent (BC)/Bank Mitra of any bank using the Aadhaar authentication.

### Unified Payments Interface

Unified Payments Interface (UPI) is a system that powers multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing & merchant payments into one hood. It also caters to the “Peer to Peer” collect request which can be scheduled and paid as per requirement and convenience.

### Mobile wallet

A mobile wallet is a way to carry cash in digital format. You can link your credit card or debit card information in mobile device to mobile wallet application or you can transfer money online to mobile wallet. Instead of using your physical plastic card to make purchases, you can pay with your smart phone, tablet, or smart watch. An individual's account is required to be linked to the digital wallet to load money in it.

### Point of sale

A point of sale (PoS) is the place where sales are made. On a macro level, PoS may be a mall, a market or a city. On a micro level, retailers consider PoS to be the area where a customer completes a transaction, such as a checkout counter. It is also known as a point of purchase.

### Internet banking

Internet banking, also known as online banking, e-banking or virtual banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website.

### National Electronic Fund Transfer (NEFT)

National Electronic Funds Transfer (NEFT) is a nation-wide payment system facilitating one-to-one funds transfer. Under this Scheme, individuals, firms and corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme.

### Real Time Gross Settlement (RTGS)

RTGS is defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis (without netting). 'Real Time' means the processing of instructions at the time they are received rather than at some later time; 'Gross Settlement' means the settlement of funds transfer instructions occurs individually (on an instruction by instruction basis). Considering that the funds settlement takes place in the books of the Reserve Bank of India, the payments are final and irrevocable.

### Electronic Clearing System (ECS)

ECS is an alternative method for effecting payment transactions in respect of the utility-bill-payments such as telephone bills, electricity bills, insurance premia, card payments and loan repayments, etc., which would obviate the need for issuing and handling paper instruments and thereby facilitate improved customer service by banks / companies / corporations / government departments, etc., collecting / receiving the payments.

### Immediate Payment Service (IMPS)

IMPS offers an instant, 24X7, interbank electronic fund transfer service through mobile phones. IMPS is an emphatic tool to transfer money instantly within banks across India through mobile, internet and ATM which is not only safe but also economical both in financial and non-financial perspectives.

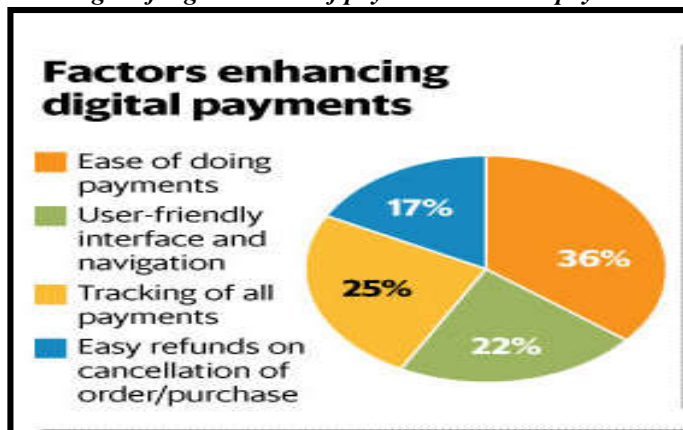
### Mobile banking

Mobile banking is a service provided by a bank or other financial institution that allows its customers to conduct different types of financial transactions remotely using a mobile device such as a mobile phone or tablet. Each Bank provides its own mobile banking App for Android, Windows and iOS mobile platform(s).

### Micro ATM

Micro ATM is meant to be a device that is used by a large number of Business Correspondents (BC) to deliver basic banking services. The platform will enable Business Correspondents (who could be a local kirana shop owner and will act as ‘micro ATM’) to conduct instant transactions.

### Advantages of digital modes of payment over cash payment



The digital modes payments have advantages over cash payment. Some of them are as follows:

**Convenience**

The ease of conducting financial transactions is probably the biggest motivator to go digital. A person will no longer need to carry wads of cash, plastic cards, or even queue up for ATM withdrawals. It is a safer and easier method of spending option when you are travelling.

**Discount**

The recent waiver of service tax on card transactions up to Rs 2,000 is one of the incentives provided by the government to promote digital transactions. This has been followed by a series of cuts and freebies. It's a good time to increase your savings if you take advantage of these.

**Small gains**

Being cashless makes it easy to ward off borrowers. Another plus point is that one can pay the exact amount without worrying about not having change or getting it back from shopkeepers.

**Tracking spends**

If all transactions are on record, it will be very easy for people to keep track of their spending. It will also help while filing income tax returns and, in case of a scrutiny, people will find it easy to explain their spending. Besides the tax, it will have a good impact on budgeting.

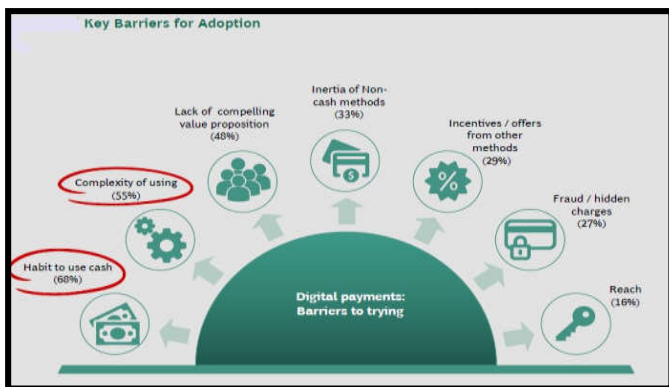
**Budget Discipline**

Various apps and tools will help people analyze their spending patterns and throw up good insights over a couple of years. Controlled spending could also result in higher investing.

It will curb generation of black money and will reduce real estate prices because of curbs on black money as most of black money is invested in Real estate prices which inflates the prices of Real estate markets

It will pave way for universal availability of banking services to all as no physical infrastructure is needed other than digital.

**Challenges faced in making India cash less economy**



There are a number of obstacles in making India a cashless economy. Some of them are as under:-

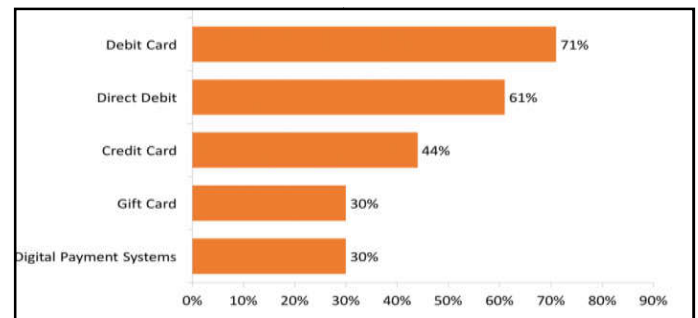
- A large part of the population, approx. 50% of Indians is not covered under any banking system. Though bank accounts have been opened through Jan Dhan Yojana, most of them are lying unoperational. Unless, people start operating bank accounts, cashless economy is not possible.

- The digital mode is a big hurdle for the tech-unfriendly people. Since, India has a low penetration of 34.8% as per Internet live status and only 26.3% of all mobile phone users have a smart phone, therefore, it is difficult to go digital.
- The low literacy rates in rural India & lack of infrastructure like internet access and power make things extremely difficult for people to adopt cashless economy.
- In India, there are approx. 350 million internet users. The internet penetration rate is just 27% which is very low in comparison to countries like Nigeria, Kenya & Indonesia etc. It has to be at least 67% which is global median.
- Only 17% of Indians use smart phones which is very less and only 15% of Indians have internet on their smart phones.
- The internet loading speed is very low. The average page load time is 5.5 seconds in India in comparison to 2.6 seconds in China.
- Since, India is dominated by small retailers; therefore they don't have enough resources to invest in electronic payment infrastructure.
- Most card and cash users have the perception that they will be charged more if they use cards. Moreover, non- users of credit cards are not aware of the benefits of credit cards.

**An analysis of the various digital modes of payment**

The digital modes of payments are gradually being popular among the common man. Nearly 88% of the people prefer cashless payment over cash payments for more than 75% of their transactions. The most popular instrument used by masses is debit card followed by direct debit, credit cards gift cards and digital payment system.

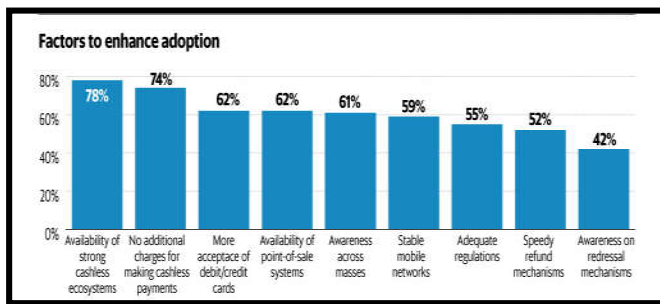
**Popular Online Modes of Payments**



**Future of digital payment mechanism**

The future of digital payments is very bright. India is experiencing a remarkable growth in digital payments. The percentage of the digital payments through other modes is also increasing in a significant speed. Digital revolution has provided an easy way to go for digital payments. India has more than 100 crore active mobile connections and more than 22 crore smartphone users as of March 2017. This number is going to increase further with a faster internet speed. The reach of mobile network, Internet and electricity is also expanding digital payments to remote areas. This will surely increase the number of digital payments. Certain efforts are required to strengthen the mechanism which has been represented as follows:





The above factors will help in enhancing the adoption of cashless modes of payments progressing India towards a cashless economy.

## CONCLUSION

The future of the Cashless India looks pretty promising as the response of the country people towards this move of the government and the support towards it is a clear indication that the government's move is likely to succeed. The transparency in the economy will increase through the e-commerce transactions and the digital payment gateways which will increase the GDP of the economy. This will increase the creditability of the country and make a rise in investments. This step of cashless is truly going to create ripples of big success and it will help to attain vision of Prime Minister Modi's vision of "Digital India". With limited cash in hand and an indefinite crunch in sight, most people are rushing to cashless transactions. Digital transactions bring in better transparency, scalability and accountability.

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