

# Cash to Cashless Economy: Benefits, Challenges and Future Prospects

**Dr. Raja Bhoj Sharma**

## **Abstract**

On 8 November 2016 our honourable Prime Minister Shri Narendra Modi announced demonetisation of currency notes of Rs. 500 and Rs. 1000 which left everyone to shock around the world. Although in Indian history demonetisation happened twice before but this time it left everyone to surprise. The basic aim behind the move was to curb black money but when the scheme went to flaw because of instances of new currency notes being found in large stacks a new objective was propounded i.e. making India a cashless economy. The government faced a huge criticism because such a sudden move was implemented in a country where only a few percentages of people know how to do cashless transaction. It was also contrary to the fact that government was printing notes of Rs. 2000. In India even today there is absence of banking facilities and people are not well educated enough to become cashless. Moreover the security system is at risk with instances of frauds. However in comparison to developed countries India has nearly 5% of cashless payments and it should be increased but implementing the change without being ready created havoc. India where 95% of payments are made in cash faced a liquidity crunch. The whole country stood up in lines and some incidents of death were also reported. The basic objective of the study is to provide a conceptual framework of cashless economy and its benefits. The bottlenecks which prevent households to make non cash payments are also identified. The paper also aims to provide some suggestions relating to cashless economy and how India can move from cash to cashless economy.

**Keywords:** Demonetisation, No cash, Bottlenecks, Liquidity crunch, Benefits

## **Introduction**

India is a country with currency in circulation Rs. 17.97 lakh crore (trillion) as on November 2016 and with annual population growth rate of around 1.2% annually the need of currency for transaction will also rise. Cashless economy involves all the transaction without actual cash in the economy. As on OCTOBER 2016, there are 94.2 crore debit cards in the country.

Report on Trends and Progress of Banking in India, the figures reveal a more than 140% jump in prepaid card transactions and around 150% jump for mobile wallet transactions. As smart-phone-based payments showed an up-tick, credit cards also showed a 16% growth this year from 10% growth in 2014-15. A Cashless economy encourages the use of digital modes of payments instead of cash transactions so as to achieve more transparency in economic transactions. Digital modes of payments are hassle free and consume less time. The World Bank's World Development Report-2016 envisages that in many instances, digital technologies have boosted growth, expanded opportunities and improved service delivery. The circulation of physical currency is minimal. Less than 5% of all payments happen electronically. The number of currency notes in circulation is also far higher than in other large economies. India had 76.47 billion currency notes in circulation in 2012-13 compared with 34.5 billion in the US. The concept of cashless economy may lead to development but shall be properly implemented.

**Need of the study**

The study aims to clarify the conceptual framework of cashless economy and how India can achieve the status of cashless economy by overcoming the various hurdles in being cashless. The paper will provide the disadvantages of cash economy and challenges of cashless economy.

**Concept of Cashless economy**

In a cashless society, consumers can make their payments on the internet, at unmanned vending machine, manned POS (Point of Sale)-using mobile devices, smart cards and other cards like debit and credit cards. Innovations in technology have greatly assisted financial inclusion in foreign countries. With innovations like mobile payment, mobile banking and borrower identification using biometric data, providing access to financial services has become cheaper and more secure. According to some studies, if the regulators allow competing financial service providers and consumers to take advantage of technology, the power of this new technology can be harnessed for the purpose of greater financial inclusion.

Studies have shown that with digital transactions, transaction costs will reduce since the money spent in transit will automatically become negligible. Studies have also shown that digital transactions help reduce the burden and risk of carrying excess cash.

Transparency in transactions reduces the black money in circulation. Moreover, digital transactions remove the possibility of physical money being stolen and help the government be aware of people who come under different categories of income tax.

**Disadvantages of being cash dependent**

In addition, the cashless policy aims to curb some of the negative consequences associated with the high usage of physical cash in the economy, including:

- High cost of cash
- High risk of using cash
- High subsidy
- Informal Economy
- Inefficiency& Corruption:

**Need of being a Cashless Economy**

- Decrease in Tax Evasion
- Saves Times and Decreases Risk
- Less Cost
- High Digital and Financial Literacy Leads to Rise in Savings
- And Investment Patterns

**Benefits of Cashless Economy**

- Reduced Instances of Tax Avoidance
- Curbing Black Money
- Reduction in Cost of Currency Management
- Time Efficient System
- Tackling Counterfeit Currency

### Challenges and Threats in Cashless Economy

- Mindset of keeping and saving cash: This is the most dominating factor in our country which will give challenges to this transformation.
- Financial inclusion: Still many people are not in the financial inclusion of the country. For women the figures are really bad.
- Digital literacy: There are many people who do not know how to use payment apps like Pay tm. Some do not know how to make on-line payments. Despite of bearing pain of standing in queue many people do money transfer standing in queues especially in rural areas and tier 3 cities and places which are close to such areas.
- Connectivity: Still many areas do not get proper Internet connections. Especially in remote areas the kind of infrastructure do these companies have developed the connectivity and speed are the issues always exist
- 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: The first and foremost requirement of a digital economy is the penetration of internet and smart phone. Although a billion mobile subscriptions (not users), only 30% of subscribers use smart phones.
- 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
- 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.

### Suggestions

Government give reasons/advantages for moving to digital economy, be it incentives or bonuses or other benefits. For a total investment of about INR 60,000 crores over 5 years, India could reduce its cost of cash from 1.7% to 1.3% of GDP and this saved money can be used effectively in solving the 3 A's :Availability (Infrastructure), Acceptability (buying behaviour and mindset),Afford-ability(cost of setting infrastructure like pos machine).

The government should promote the cashless economy by using the platforms of women empowerment so that is it entrepreneurial role or a housewife role or a mother role the transaction through digital channel gets increased. Jobs can also be created in this phase such as trainer assigned by government or banks who train few people and they also join government initiative as an employee in training others. But just providing knowledge about how to use is not sufficient .From security point of view required information should be given like Dos and Don'ts. The network should be upgraded which may provide the facility of cashless payment all over the India. Tax incentives for certain specific household expenditure is also recommended.

## Prospects and the Road ahead

The Jan DhanAadhaar Mobile (JAM) can encourage digital transaction culture.

It is spreading to reach each remote corner of the country. A large number of government transfers (DBT) are made through JAM mode. This will help people to get digital transaction awareness. The role of the government in these cases will be to make cashless transactions mandatory for certain payments and make it mandatory for certain services exceeding a certain amount which has already been initiated. A tax rebate (of say 1% to 2%) on payments made by households as salary to unorganized sector (domestic servants, sweepers etc) can boost cashless payments. This will do two things, one the households will have an incentive to go cashless and two; large portion of the unorganized sector will be financially included. Government should assure basic necessities in rural areas and focus on developing infrastructure. Special drives through schools, colleges, panchayats etc. can help create awareness about cashless/ banking transactions. Financial literacy is a must for bringing more and more people to the digital platform. Digital payment or payment through banks, instead of paying cash should be encouraged. Linkage of all welfare activities with bank accounts is a very strategic step. A strong banking base is the basic prerequisite for the cashless economy. Targeted financial education programs can improve financial skills and Credit Management, and increase account ownership in rural India

## Conclusion

The need to move towards a cashless economy in India is immense. One, it will save a huge amount of money that is spend annually in printing and maintaining currency. Most importantly it will help the Government achieve its objective of inclusive growth (through financial inclusion) and make public utilities more efficient. Currently less than 1% of all consumption expenditure is incurred through cashless instruments. However, to move towards a cashless economy, the important role of network effect and creation of a critical mass cannot be ignored. Therefore, at least in the initial stages, steps have to be taken to help build the critical network size. The current draft indicates some of those steps.

Mandatory schemes will have to have the direct involvement of the Government while incentivized schemes can be between any two private parties as long as one of the parties have been incentivized to use cashless. It is not mere coincidence that while around 3.5% of the households use non cash instruments, the percentage of taxpaying population is also 3.5%. Finally, apart from the incentives, a concerted effort to increase the network size is needed. Simply put "you cannot run a train in an area where you don't have railway track"

**Ascent Representative, Jaipur, Rajasthan**

## References

- Yaqub J.O, Bello H.T, Adenuga I.A, Ogundeji M. O: The Cashless Policy in Nigeria: Prospects and Challenges, International Journal of Humanities and Social Science February 2013
- Sumeet kumar Modi; Cashless Economy: Challenges and opportunities ahead, 2017
- Bappaditya Mukhopadhyay; Moving from Cash to Cashless: Challenges and Opportunities for India
- Niranjan Nampoothiri; Cash-Mukt Bharat Still Faces Several Challenges
- Dr. Amit Gautam, Siddhartha Rawat; Cashless and Digital Economy and its Effect on Financial Inclusion in India