

# A Cashless Economy: Challenges & Opportunities

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## ABSTRACT

Going cashless not only eases one's life but also helps authenticate and formalize the transactions that are done. This helps to curb corruption and the flow of black money which results in an increase of economic growth. The expenditure incurred in printing and transportation of currency note is reduced. In a nation like India, cashless transactions are not widespread, and this is due to the technology gap and the lack of proper awareness and education. Though these are the matters of concern, the government or the financial institution need to address them to create a strong cashless economy.

**KEYWORDS:** *Cashless economy, digital transactions, electronic payments, demonetization*

"Never take your eyes off the cash flow, because it is the life blood of the business-Richard Brenson"

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## INTRODUCTION

A cashless society describes an economic state whereby financial transactions are not conducted with money in the form of physical banknotes or coins, it is rather through the transfer of digital information between the transacting parties.

It is defined as a situation in which the flow of cash within an economy is nonexistent and all transactions are made through electronic channels such as direct debit, credit cards, debit cards, electronic clearing and payment systems such as IMPS (Immediate Payment Service), NEFT (National Electronic Fund Transfer) and RTGS (Real Time Gross Settlement) in India.

### Objective of the study:

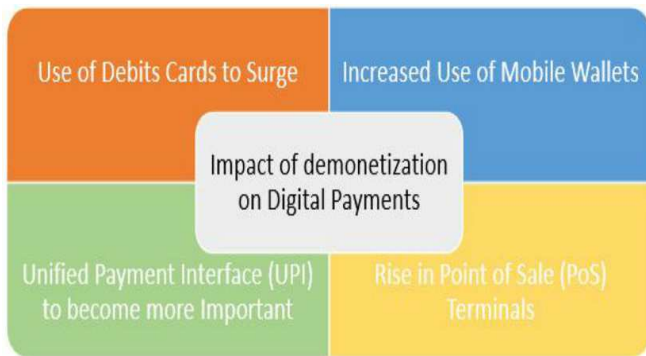
The aim of the study is to understand the impact of cashless economy on the various aspects of Indian economy, its growth and development in the different aspects of the country's economy. It also studies the challenges that the government faces to establish a cashless economy in the country.

Digital India got a big boost in the field of monetary transactions with the government's demonetisation move. Since then there has been a marked increase in tools and solutions available in the e-payment sectors. The Indian consumer has her choice of e-wallets. Unified payments Interface systems (UPI), Unstructured Supplementary Service Data (USSD) services, and more to transact financially online. India a first country with lakhs of new users getting access to the internet each month. At 574

million, India's internet penetration grew at 24%, to a total of 41% of the population in 2019 (ICUBETM report). The permitted banks provide net-banking and mobile banking services to customers. After demonetisation, even traditional banks has begun to incentivise customers to make payments digitally from their own bank accounts. As the natural step forward from here, other players have begun to promote cashless transactions for individuals and businesses alike.

As citizens get more comfortable with the idea of making payments online or through app, the total value of digital transactions has also increased. For instance, since its inception in 2016, transactions via the UPI system reached a value of Rs. 2 lakh crore at the end of 2019. According to the Razorpay Fintech Report, India saw a mammoth growth of digital payments between FY18 and FY19. This proves the Indian digital transactions market is set to grow at a rapid pace.

Cashless transactions have, in fact, revolutionised how business is conducted in India. The sheer convenience of making transactions has helped MSMEs in India expand its customer bases. These organisations could gain greater market access, streamline their operations and move towards a more transparent payment chain. According to Razorpay Fintech Report, cash dependency has fallen in P2P (peer-to-peer) transactions in favour of cards and UPI and in P2M (person to merchant) transactions in favour of cards and net banking.



### Highlights of Cashless economy

There are several challenges that are being faced by the introduction of cashless system of payment in Indian economy:

- **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 highest among the developing countries.
- **Lack of Digital Infrastructure:** It is a major hurdle in setting up a cashless economy due to Inefficient banking systems, poor digital infrastructure, poor internet connectivity. The remote areas still do not have banks, no ATM facilities. Locating an ATM might get tougher in the near future as the number of machines have shrunk gradually. This is not due to dependency on cash has waned, on the contrary there has been an increase in transactions via apps. 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.
- **Financial Inclusion:** The World Bank's 2017 Global Findex Database shows that nearly 80% of Indian people had a bank account at the time of the survey. The rapid growth has been due to Jan Dhan or People's wealth programme, which opened more than 355 million accounts in India's state. Despite the efforts made the World Bank data shows that half of India's bank accounts are inactive. In an economy where 90 percent of transactions are still made using cash, visiting a bank can seem like a chore. Although 88 percent of Indian household own a mobile phone, India lags behind countries like Kenya, where 73 percent of the population use mobile payment services, compared with just 2 percent in India.
- **Cyber security issues:** With increase in digital transactions after demonetization, the risk of online fraud, confidential information, cyber crimes, malware, virus, another mounting challenge in digital payments is cyber security issues.
- **Low literacy rate:** This hinders the progress and accessibility of banking services. Citizens should not only know the basic but also possess basic ICT literacy to fully enjoy the benefits of e- payments
- **Swipe Machines:** They are also not subsidy free., rich shopkeepers can afford them. It cannot be expected from an auto driver or a normal grocery seller. Besides many street vendors are unaware of the usage of the machines.
- **Few Banks in villages:** The capital city of New Delhi has about 20 HDFC bank branches. There are several villages

and remote areas that do not have even one bank. More number of banks, more the cash deposits. Banks in villages should be helpful in teaching the residents the process, usage and benefits of plastic card.

- **Unwillingness to join cashless movement:** Most of the people are not willing to join the cashless banking solutions. The major reasons from the seller point of view is that they are not willing to accept the cards and cheques as the sale though POS terminals and cheque transactions are accounted. One more aspect is that the sellers ask for the transaction fee that makes them costly. The probable solution to this problem is that if large number of people join the revolution of cash less payments by virtue of using debit or credit card it will be easier for the banks or service provider to lower the transaction fees and adjust to the normal phenomenon.
- **Customer awareness:** Consumers are not aware about the different aspects of cashless transactions. Service tax, transaction fee, security of the account all matters should be stressed upon so that consumers are aware and become an effective party.

### Suggestions

A cashless economy is an effort by the government bodies and also a revolution which has to be brought about to make people understand the benefits and also empower them to transact digitally in their everyday life. From one's salary to their mobile recharge, all remittance if done electronically will lead to a more transparent and accountable society.

- The transformation of the current payment method to a total cashless one may not be possible in the near future, but continuous innovation in technologically aided payment system will certainly expand the society's accessibility to cashless payment. Banks and mobile wallets must have better visibility during the pre-transaction phase to build trust in the mobile wallet payment experience.
- If the Indian government wishes to transform into a digital economy, it will have to do their utmost to create a good experience for the user. It is a challenge to a country like India where less than half of the population have bank accounts.
- The ability to detect fraud on the mobile device itself in the pre-transaction phase, for example- allow banks and mobile wallets to verify that a payment device is connected to the consumer using it for that particular transaction. This would have significant impact on prevention of fraud in the country.
- Demonetization a huge government reform which continues to impact the Indian economy, has already done a lot to encourage this growth by setting up millions of citizens with bank accounts and promoting digital payment technologies eg -BHIM, AEPS and UPI. In addition, however, banks and mobile wallets must have the visibility that they need to ensure a simple and secure mobile payment experience to build consumer's trust.
- Hence, any policy that promotes cashless payment will not affect the economy immediately. The study suggest the futuristic card should evolve to use biometric ID ( fingerprints, eye scan etc), which can be extremely difficult to copy and making it a very safe option.

- The banks should also work on two- factor authentication process for online transaction. The measure suggested include encouraging installation of POS machine by rationalizing merchant discount rate and allowing the first five interbank transactions free of cost to promote online money transfer.
- More ATM should be setup so that people start using plastic money. The surcharge or service charge or convenience fee on card and digital payments can be withdrawn which is currently imposed by the government.

### Conclusion

The need to move towards a cashless economy in India is immense.

- It saves a huge amount of money that is spent annually in printing and maintaining currency. Currently less than 1% of all consumption expenditure is incurred through cashless instruments.
- The arrival of malls, multiplexes, online shopping stores and shopping complexes encourage the customers to make use of plastic cards.
- The government needs to take the necessary steps and make some policy considerations to be prepared for a cashless economy. The payment systems have to be protected from the cyber attacks.
- Going cashless provides a lot more benefits than just convenience to people, businesses and the government

in particular. Increase use of electronic payments boosts consumption and GDP. This initiative by the Government along with the implementation of GST will eventually make the system more accountable and efficient.

- Proper infrastructure should be developed in the remote areas so that this facility should be taken to the rural and remote India.

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