



Cash to cashless economy: An Indian perspective

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Abstract

A cashless economy is one with minimum circulation of physical currency. Complete absence of physical currency is still an imaginary situation for India since most technologically advanced economies of the world are still running on partially cashless system. Government of India is pushing Indian economy toward a cashless system post demonetization to curb the challenges of black money in the economy. But is India actually responding to government initiatives to digitalize the economy? Does India possess at present the necessary and sufficient infrastructure to support digital mediums of transactions? There is enormous scope for digital activities in the country but so far, the progress is not satisfactory. There are some steps that government must take to ensure cashless economy in near future.

Keywords: digital, economy, infrastructure, demonetization, circulation

Introduction

Cashless economy as the name suggests is a system of exchanging goods and services without using the physical form of the currency. It is an economic state which facilitates conducting financial transactions electronically over internet. Physical circulation of currency notes and coins is least in this state of the economy but it do takes place because a completely cashless economy is still an imagination. A cashless economy must be supported by an advance technological infrastructure.

In a traditional economy, notes and coins are mediums of making and receiving payments. But in a cashless economy, there are many digital mediums to transact like; internet banking, debit card, credit card, E- wallet, mobile based payments applications, Neft, RtgS etc.

Table 1

Country	% of cashless transaction
Singapore	61
Netherland	60
France	59
Sweden	59
Canada	57
Belgium	56
UK	52

Source: MasterCard Advisers

Moving from cash to cashless economy gives birth to many challenges and opportunities. The adjoining table is showing the percentage of digital transactions of some countries. The largest economies of the world are running with partially cashless economy to cope with the challenges of a fully cashless system. India is one of the fastest growing economics of the world and has stepped forward toward a cashless digital system.

Literature Review

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Objectives of Study

The paper is an attempt to evaluate the current progress of cashless economics system and comment on the obstacles in the way of digitalization of Indian economy.

History and Current Scenario

Pre historic period witnessed barter system which was a currency less system of transactions. The first form of physical currency was coin which was introduced by china in 770BC. Circulation of paper currency was initiated by Netherland in the year 1814. The first step toward cashless payments was introduction of Bank Account and cheque in the

year 1920. From then, many electronic mediums of financial transactions came into existence. Below is the timeline of development of digital mediums.

Year	Event
1970	Bank introduced direct payment / debit. Customers no longer have to go to the bank for every payment
1980	Introduction of first plastic money or Credit Card
1990	Introduction of point of sale (POS) terminal. It became possible to make payments via Debit card/Credit card on shops
1992	Tele-Banking service initiated
1997	Internet Banking came into existence. It Became possible to carry out majority of Banking functions on the web.
2003	Mobile Banking introduced by banks
2016	Users of different platforms of digital Transactions increased drastically due to demonetization

Indian Economy: From Cash to Cashless System

Indian economy is the seventh largest economy of the world. Agricultural sector dominates in Indian economy. But contribution of service and manufacturing sector in GDP is also increasing rapidly. Most of the financial transactions takes place by actual exchange of currency notes and coins. Currency notes of Rs.1, Rs.2, Rs.5, Rs.10, Rs.20, Rs.50, Rs.100, Rs.500 and Rs.1000 denomination were in circulation. Coins of the face value of Rs.1, Rs.2, Rs.5 and Rs.10 were in use. Total value of currency in circulation was Rs. 17, 54, 000 crore. 98% of total financial transactions used to be performed in cash mode.

This was the glimpse of Indian economy before 8th November 2016, the day Prime Minister Mr. Narendra Modi announced demonetization of Rs.500 and Rs.1000 currency notes. This step was taken to reduce the volume of black money in Indian economy but is also proved to be a milestone in forcing the Indian economy towards a digitally transacting hub. Rs.500 and Rs.1000 notes together accounted for Rs.14.2 lakh crore which was 86.4% of the total currency in circulation as of 31st March 2016. Immediate lack of liquid currency motivated people to look for alternate modes of making and receiving payments. This resulted in growth of users of different digital payments platforms like RTGS, NEFT, Internet banking, mobile wallets, mobile applications based payments systems etc. Digital payments increased to 22 % from October 2015 to October 2016. Mobile banking and immediate payment system (IMPS) witnessed drastic growth in last 12 months ended October 2016. Mobile banking transactions increased 175% while IMPS transactions increased 116%. Prepaid payment instruments also known as PPI doubled during last 12 months. Transactions using National Electronic Fund Transfer (NEFT) grew 16% post demonetization. According to data of central statistical office, consumptions of goods and service increased 2.8% in the quarter ended September 2016 compared to the previous quarter of the same year. In the same period, cashless payments in the country increased 6%. Thus, it can be concluded that the consumers are responding well to the government initiatives to digitalize the economy. The transactions using unified payments interface (UPI) increased from 30 crore in August 2016 to 480 crore till

December 2016. Bharat interface for money (BHIM) which is developed by national payments corporation of India based on UPI. It was released on 30th December 2016. During union budget 2017, finance minister Mr. Arun Jaitley declared that it is currently being used by 125 lakh Indian citizens. All these facts and figures are indicating that India is moving rapidly from traditional cash based economy to a digital cashless economy. The progress of the economy post demonetization is satisfactory but it is not sufficient.

Obstacles in Digitization of the Economy

The current scenarios of Indian economy are indicating following obstacles in digitization of the economy.

- **Lack of digital infrastructure:** A cashless economic system must be supported by a strong digital infrastructure to facilitate smooth flow of electronic currency. There is lack of sufficient and proper infrastructure in India. Network failure, unauthorized fund transfers, virus attacks, data leakage etc. are some common issues faced by users of digital mediums.
- **Illiteracy and unawareness:** large portion of Indian population is not literate enough to handle digital mediums of transactions. 74.04% of total population of India is literate and rest is illiterate. Thus, completely cashless system is not possible yet.
- **Lack of access to banking services:** Large portions of Indian population do not have access to basic banking services. Total users of bank account increased from 35% to 53% between, 2011 to 2014. But the rate of account dormancy is also high. Due to Jan Dhan Yojna, 125 million new bank accounts were opened by the ends of January 2015 but 72 % of these accounts are in dormant state. Only 15% of adults were reported using bank account to transact according to the reports of World Bank on financial inclusion.
- **Transaction Charges:** Digital transactions are not free of additional charges. E-wallets, RTGS, NEFT, card payments, online transfer etc. are all chargeable according to the amount of transaction. Higher amount of transaction attracts higher charges.
- **Lack of POS terminals:** Points of sale terminals are neither sufficient nor evenly scattered. India needs nearly 20 million points of sale terminals. Between the periods November 2016 to march 2017, number of pos terminals increased almost 100% but India is roughly at 12 % of what is actually required. Ernst and young report said that there were only 693 pos terminals per million of India's population. This figure is very low compared to Brazil, China, and Russia where there are 32,995, 4000 and 4000 terminal respectively per million of population.

Conclusions and Suggestions

There is wide scope for cashless digital economic system in India but low literacy rate and lack of basic infrastructures like access to internet and power are making it difficult for middle and lower class of the society to adopt digital mediums of transactions. Government of India should attempt to digitalize the country in a phased manner. Either state wise or district wise within a state. Point of sale terminals should be increased on a large scale so as to reach the rural sectors of the country.

With 30.38 crore Jhan Dhan beneficiaries, 118,44,73,363 Adhaar and 730.7 million mobile phone users, the JAM trinity is providing a very strong frame to build a digital economy with least cash transactions.

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