

# Cashless Economy and Its Impact on Economic Growth: A Scrutiny into the Thwack of Digital Payment Systems.

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## **ABSTRACT**

*This article examines the cashless transactions and its impact on Indian economy. The Indian payment system is speedily transiting to more and more IT-based systems. In the retail area, we have very high volumes of money circulation. Other than cash, one of the growing payment methods accepted by merchants in the sector is payment cards. However, the whole isometrics of moving from cash-determined economy to a cashless economy has somehow been mixed with demonetization that was aimed to extract liquidity from the system to extract black money. With the increasing acceptance of electronic payments, particularly those driving e-commerce and m-commerce, there is a growing demand for quicker payment services which, in turn, enable ease in doing financial connections.*

**Keywords:** *Cashless Economy, Black money, Digital India, Digital Payments, Cyber Crimes,*

## **INTRODUCTION**

**“A Cashless economy is secure, it is clean. You have a leadership role to play in taking India towards an increasingly digital economy”-Sri. Narendra Modi**

November 8, 2016, is a historical date in the contemporary Indian economic scenario as it was on this day our hon. Prime Minister Mr. Narendramodi had launched the programme Digital India with a vision to transform India into a digitally empowered nation, creating a cashless, paperless economy followed by the implementation of demonetization. He addressed the public during an election campaign at Uttar Pradesh for asking them to familiarize themselves with the idea of cashless transactions. The current status indicates that in India, the e payments in the country are only limited to 7 percent to 8 percent. Moreover his radio Programme “Man Ki Baat” He said: “Learn how this digital economy works. Learn the different way you can use your bank accounts and internet banking. Learn how to effectively use the apps of various banks on your phones. Learn how to run your business without cash. Learn about card payments and other electronic modes of payment. Look at the malls and see how they function. A cashless economy is secure, it is clean. You have a leadership role to play in taking India towards an increasingly digital economy.

## II. MEANING OF CASHLESS ECONOMY: CURRENT TREND AND PATTERN

A cashless economy includes e-banking (mobile Banking/ Internet Banking), debit and credit cards, card swipe or point of sale (POS) machine and digital wallets where all types of transactions are carried out through digital means. The present status of India reveals that our country stands far behind other economies with respect to the cashless transactions. The ratio of cash to GDP in India was one of the highest in the world, i.e. 12.42 percent as per the report of 2011 when compared with that of China (9.47%). Another statistics of 2012-13 revealed that India has 76.47 billion currency notes in circulation during that time as compared to that in the US (34.5 Billion). However, by 2016, India, the demonetization of 8<sup>th</sup> November has resulted in the depletion in cash as the currencies of Rs.500/- and Rs.1000/- were banned, pushing the digital and electronic transaction to the forefront. But e-banking, e-wallets, and other transaction applications are becoming more prevalent nowadays. On the other hand, various other studies have shown that people prefer cash to credit cards while making their personal purchases, especially at malls.

## III. BENEFITS OF ADOPTING A CASHLESS ECONOMY

The cashless economy has helped in creating a positive impact on society in terms of its mode of operation, time and cost. The various benefits of going for a cashless economy are given below:

1. Root out the generation of black money
2. Individuals will find it hard to excuse themselves from income taxes.
3. A check on black money leads to the reduction of real estate prices
4. Money spend on currency insurance and insurance and management can be avoided
5. It can increase consumption and thereby boost production, employment opportunities, and income

The cashless economy has helped in uprooting the growth of a parallel economy rooted in black money. As all the transactions can be tracked and monitored, there will be difficulty in evaluating the income taxes. Thus it can enhance the revenue income of the government by carrying out more productive activities in the economy. Inflation takes place in the prices of real estate markets and the reduction of real estate prices take place due to the improved check on black money. It is reported that RBI had spent Rs.27 Billion in the financial year 2015 and such expenses shall be rubbed off. People won't be that much interested in keeping their cash in banks. So that it will boost consumption and thus the income.

## IV HOW TO IMPLEMENT THE IDEA OF A CASHLESS ECONOMY IN THE CONTEXT OF INDIA

The idea of the digital cashless economy can be implemented through a variety of modes which but effectively into the economic matrix of India. They are

Payment banks	<ol style="list-style-type: none"> <li>1. Announced by Reserve Bank of India</li> <li>2. Can issue facilities like ATM cards, mobile banking, net banking debit and credit cards etc.</li> <li>3. Highly competitive in terms of traditional banks.</li> <li>4. Eg: Two Such PAYMENT Licenses                     <ol style="list-style-type: none"> <li>(a) Airtel (Founded in 1995, reaching a revenue of \$14.5 billion by 2016)</li> <li>(b) PayTM( Founded in 2010, valued at \$1 Billion at present)</li> </ol> </li> </ol>
ELECTRONIC FUND TRANSFER SYSTEM	<ol style="list-style-type: none"> <li>1. Fund transfer from one bank to another using popular methods such as RTGS and NEFT</li> <li>2. It less time consuming and highly economical</li> </ol>
MOBILE WALLETS	<p>This application can be downloaded on mobile.</p> <ol style="list-style-type: none"> <li>1. Open to Zero KYC or a full KYC Wallet along with your smartphone mobile phone.</li> </ol>
INTERNET BANKING	<ol style="list-style-type: none"> <li>1. It enables the individual to make use of the digital /online services by opening a bank account</li> </ol>
BANKING CARDS	<ol style="list-style-type: none"> <li>1. The plastic cards (ie the debit and credit cards are used as a method of payment.</li> <li>2. These are made available by providing KYC information to the bank</li> </ol>
BANKS PREPAID CARDS	<p>An MPIN is generated through a bank account with a wallet or a prepaid card and a smartphone.</p>
POINT OF SCALE	<ol style="list-style-type: none"> <li>1. They are a handheld device with the biometric reader along with a merchant bank account and internet connectivity.</li> <li>2. Enables Payment through swiping's POS terminals</li> </ol>
CARDS	<ol style="list-style-type: none"> <li>1. This concept has become a current</li> </ol>

	<p>trend.</p> <ol style="list-style-type: none"> <li>2. A bank account, mobile phone application of the bank and internet connectivity is required.</li> </ol>
MOPAD(multi-option payment acceptance device)	<ol style="list-style-type: none"> <li>1. State bank of India</li> <li>2. Convenience for merchants and customers</li> <li>3. It helps to integrate different types of the transaction through POS</li> <li>4. No need for multiple machines</li> </ol>

The growth of POS Terminals in India

Table 1

Banks	Online POS Terminal(Lakhs)
SBI	609789
HDFC	403567
AXIS	502226
ICICI	325358
Corporation bank	161984

Source: RBI Statistics

The number of POS terminals in India has increased from 5 lakhs (2010) to 14.62 lakhs (2016) 2.9 million 93 percent as of March 2018. During the 2017-18 budget, Finance Minister Arun Jaitley reinterested the goal of setting up 10 lakhs POS Terminals in the country.

### V NEGATIVE IMPACT OF GOING CASHLESS

Apart from the above mentioned brought aspect of our concept, its practical implications have got its own side effects too. Digital India is, of course, an illuminating idea, yet, the excessive dependency on the internet, on the other hand, can impact its own unfair consequences such as an increase in cyber crimes increased chances of trapping and finally befeauding through digital transactions.

As the online frauds like hackers are increasing in rate, it is easy for the persons using transactions through online mode to fall in cyber pits. This can be best illustrated by using the table given below.

Table 2

Year	IT Act		IPC	
	Cases Registered	Persons Arrested	Cases Registered	Persons Arrested
2011	1791	1184	422	446
2012	2876	1522	601	549
2013	4356	2098	1337	1203
2014	7201	4246	2272	1224
2015	8045	5102	3422	2867
<b>Total</b>	<b>24269</b>	<b>14152</b>	<b>8054</b>	<b>6289</b>

Source: www.factly.in

Hackers can easily access the account related sensitive information as digital transactions through public networks are more prone to traps. A report by ASSOCHAMEY on a study titled “Strategic Nation measures to combat cyber-crimes” shows the following cyber crimes rates related to internet transactions

Complaints	Nature of freudary
18 percent	Hacking of email ids
21 percent	Cheating through mobile phone
46 percent	Credit/Debit Card Fraud

Most of the times, time lag happens for taking legal decisions against such fraudulent cyber activities. For instance, in October 2018, 3.2 million card details belonging to the customers of SBI, HDFC, ICICI, and Axis Bank were stolen in malware-related security areas.

## CASHLESS ECONOMY AND INDIA: CHALLENGES

The major stumbling blocks in making the economy of India digital, as well as cashless, can be classified into the following heads:

### I. The nature of the Indian population

Majority of the Indian population is unbanked, tech-unfriendly and stands below literacy rate. Approximately 50 percent of Indians are unbanked and this population comes around 233 million (Price water house Cooper's report, 2015). Though they have an open bank account through Jan Dhan Yojana, The policy is yet in its dormant state. The cashless economy remains as an unpractical dream unless people start using banking facilities. Moreover, India has low penetration of 34.8 percent as per internet live stats and the only 26.3percent of are mobile phone users have a smart fort along with low literacy rate in rural India has a lack of infrastructure like internet access features difficulty in adopting a cashless economy in India.

## II. Less reachability of technology in public

The internet penetration rate in India is having approx. 350 million internet users are just 27 percent. Which is very stumpy in contrast to countries like Nigeria, Kenya, and Indonesia. It has to be at least 67 percent which is the global median. Only 17 percent of Indians are smartphones and only 15 percent of Indian have internet on their smartphones. Internet loading speed is very low in India. The normal page load interval is 5.5 Seconds in India in a link to 2.6 Seconds in China. POS Machines are mandatory for any cashless transaction. In India, the number of POS Machine is 2 per 1000. Debit cards as compared to other countries like in Brazil (14.8), China(12.5), Russia (6.1), US(13.1) and in Australia is 33.2 per 1000 debit Cards.

## III. Other Reasons

1. The lion share of the Indian economy has been dominated by small retailers who don't have enough means to invest in electronic payment infrastructure.
2. On one hand, the nonusers of credit cards are not aware of the benefits of credit cards while on the other hand, most of the cash and card users have got harboring nation that they will be charged more if they use cards.

## **RBI AND GOVERNMENT TO DISCOURAGE THE USE OF CASH: STEPS AND STRATEGIES**

### PROMOTION OF MOBILE WALLETS

This allows instant transfer of money in order to pay the bill, recharge mobiles, book ticket and send physical e gifts. (online and offline) Based on certain KYC Verification, the users are allowed to raise their limit to Rs.1,00,000/- as per certain guidelines of Reserve Bank of India. The government has offered several incentives for the promotion of digitalization in India through cashless mode. They are

- A service tax of 15 percent is Waived off on digital transactions up to Rs.2000/-
- A discount of 0.75 percent is allowed for the digital purchase of fuel through credit cards, mobile wallets or e-wallets
- On behalf of online ticket buyers, free accident insurance worth Rupees 10/-Lakhs allowed
- 5 percent discount is offered on purchase of New LIC Policies Online via its Site
- For urgent mobile transfer between account holders of two different banks, the government has also launched the UPI Payment System

### BHIM (Bharat Interface for Money)

BHIM is an app for transaction introduced by Government to transact between each other as well as with other merchants. Three months since its launch, BHIM app has currently 17 million downloads, other than BHIM, other Digital cashless technologies such as UPI, AEPS, are promoted by Government. From April 2016 to October 2016, the National Payments Corporation of India has evaluated that AEPS has raised 12 times over these six months.

Due to an increase in digital transactions apart from RBI, some of the companies have also taken steps to ensure cybersecurity. For instance, CSEC (Cyber Security Engagement Center) is a full-scale cybersecurity center opened by Microsoft in New Delhi, India. It functions as a satellite to the companies. Redmond digital Crime Unit (DCU). This center helps customers to tap the pool of security specialists for monitoring the virtual as well as the source of cyber-attacks.

### **THE STEPPING STONES TOWARDS A CASHLESS INDIA**

- A. Keep cyber Hygiene: it should be maintained by abstaining from the password sharing with others or in any public networks. And also the techniques should be accessed and controlled with strong authentication measures implemented by mobile e-wallet companies
- B. Ensure that the bank account opened are operationalized
- C. The following fees are reduced
  - (a) Abolished Government Fee on Credit Card Transactions
  - (b) Interchange fees on card transactions are reduced
  - (c) Taxes on ATM withdrawals are increased
- D. Rebates on tax were allowed for those consumers and merchants adopting electronic payments
- E. For faster rollouts in the country, POS Capabilities need to be scaled out.
- F. Develop Public Faith in e payment system by
  - (1) Making e payment infrastructure safe and secure
  - (2) Minimizing the incident of cybercrime
- G. The RBI has come in terms with a few issues
  - (a) Supposing out what digital payments methods across borders means for its capital controls
  - (b) How the novel methods of payment disrupt the key monetary variables such as the velocity of money circulation.
  - (c) RBI has to move away from its conservatism as the protector of banking interest rather than the gross financial development, but to a far extent.

### **TREND AND PATTERN OF A CASHLESS ECONOMY IN DIGITAL INDIA**

- 100 digi dhan melas held in 700 cities
- 1500 institutions have gone cashless
- 75 less cash township to generate over 15 lakh digital transactions/day
- Rs.258 crores awarded to 16 lakhs lucky winners for using digital payments
- Number of digital transactions jumps 23 times to 63,80,000 for a value of Rs.2425 crores
- AEPS Increased from 25 crores to over 5 crores
- IMPS Transactions increased from 3.6 cores to 6.7 cores

## CONCLUSION

Our Honorable Prime Minister Narendra Modi's vision regarding digital in India has got a new sense of orientation through the implementation policies regarding a cashless economy in India. This new outlook seems to be highly promising and people supported and welcomed the new idea extending both of their hands. Through electronic transactions, transparency in the economy has considerably increased in GDP. Thus the credibility of the country has to enhance with hype in investments. Thus this new Indian government is going to create powerful supplies in the overall development strategies of India.

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