



4. Impact of Cashless Transaction on Indian Economy

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ABSTRACT

Cash transactions have given way to cashless transactions in the contemporary world. This article looks at how India's economic growth and steady shift to a cashless society are affected by the country's adoption of a cashless payment policy. With limited cash on hand and no end in sight to the crisis, the majority of people are hurrying towards cashless transactions. Accountability, scalability, and transparency are all improved by digital transactions. There is no doubting that digitalization is taking place quickly and that it affects practically every aspect of our life. Whether it is paying bills, filing taxes, banking, grocery shopping, schooling, filing taxes, or any other legal documentation.

Even money has gone digital; instead of carrying around physical currency, an increasing number of people choose to use digital cash payment methods. Both the nation and the economy would benefit from less reliance on cash and more inclination toward these alternative payment methods. The announcement of demonetization on November 8, 2016, strengthened the central government's ambition to move India toward a cashless economy. According to respondents' responses, it will lower the cost of producing cash, lower the risk of stolen or counterfeit money, fight terrorism, and promote our nation's economic progress. Cyber fraud, a high prevalence of illiteracy, people's attitudes, and a lack of efficiency and transparency in digital payment systems are major obstacles that could prevent the legislation from being put into effect.

Additionally, the analysis in this article will look at the cashless economy and see if it helps drive India's economic development. This essay focuses on the advantages, opportunities, and security risks associated with cashless transactions. It discovers that being cashless has a number of advantages, including convenience, simple financial transactions, increased availability of discounts, savings on both money and time, etc. Cashless transactions are conducted via various mechanisms. Internet and mobile banking, prepaid cards, e-wallets, mobile wallets, credit and debit cards, and other services have all been made widely available by technology. At the same time, the electronic payments system is expanding quickly. It is anticipated that its influence would be felt when payment systems in a variety of industries, including business, education, and the economy, are modernized. This paper will talk about. Indian economy's response to cashless transactions.

KEYWORDS

Cashless, Transaction, Indian Economy, Digital Transactions, Banking, Groceries, Bill Payments, Cashless Transactions, E-Wallets, Mobile Wallets, E- Banking, Digital Wallets, Jan –Dhan Yojana, Paperless, Mobile Banking, Cheques.

Introduction:

Cashless Economy:

In a cashless economy, traditional payment methods like cash or coins are replaced by cards, payment wallets, and other digital ways of payment.

To put it another way, a cashless economy is one in which financial transactions are conducted entirely online (via net banking, credit cards, debit cards, and mobile wallets) rather than with physical currency. As a result, the types of cashless economies that exist in each nation will depend on the most widely accepted digital payment system there.

India's transition to a cashless economy was made possible by the government's demonetization plan in 2016. When the pandemic hit shortly after, the government quickly developed e-payment businesses and introduced Unified Payment Interfaces (UPI). The pandemic's start caused a paradigm change in people's thinking, encouraging them to adopt a cashless attitude and take advantage of the available technologies.

When cash is exchanged without the use of currency notes, the transaction is referred to as cashless. In essence, a cashless transaction denotes a cashless society, which is an economic condition in which funds are transferred electronically between the parties involved in a financial transaction rather than using actual currency in the form of coins or bank notes. Barter and other forms of exchange have allowed for the existence of cashless societies, and the use of digital currencies like bitcoin has made cashless transactions feasible. [1]

To lessen the need of real currency in the economy, the Reserve Bank of India and the Indian government have supported various digital payment methods and devices, such as prepaid cards and instruments. The goal of a "cashless" transaction economy, in which physical cash is used virtually exclusively for settlement, is what motivates the Reserve Bank of India's (RBI) efforts to promote these more modern payment and settlement options.

An economy that exclusively accepts cash transactions does not lack cash; rather, it is a reflection of the cultural norms of those who prefer to transact business online. These days, digital transactions are common for financial transactions. It is imperative to promote the expansion of online payment systems and associated infrastructure as a result.

The declaration of demonetization on November 8, 2016, gave the Indian government a boost in its ambitious goal of bringing the country closer to a cashless economy. With the demonetization of high-value currency notes of RS 500 and RS 1000, the government has significantly altered the Indian economy and accelerated the country's transition to a

cashless society. An economy that does not use actual cash is known as a cashless economy. Plastic cards, including debit and credit cards, bank fund transfer systems, virtual wallets, etc., are used for all receipts and payments. To lessen reliance on cash, the Indian government is starting a number of projects at different levels. To encourage mobile banking and e-payments, Prime Minister Narendra Modi presented two schemes to traders and customers: the Digi Dhan Vyapaar Yojna and the Lucky Grahak Yojna. It is crucial to instill the habit of making electronic payments in order to promote and fortify the cashless economy. The government promotes cashless purchases via digital payment options like as USSD, UPI, Ru-pay cards, and mobile banking.

For those without cards or cell phones, the government has also implemented an Aadhar-based payment system. It is desired to lessen the Indian economy's reliance on cash for a number of reasons. Transfers require paper money in order to prevent black money and to regulate fake notes that might support terrorism. Due to the fact that illegal trades like the sale of narcotics generate a significant portion of black money, illegal commerce may become challenging in the absence of cash. [2]

Impacts of Cashless Transactions:

The following is a definition of the effects of cashless transactions in the various sectors.

Business Sectors:

The impacts of Cashless Transaction on the Business

Sector is as following:

- Businesses are legally strong.
- Proper audit. Not hidden excess liability.
- Increase use of e-payment.
- Wallet holds business gets an advantage.

Education Sectors:

The education sector is probably not going to be significantly impacted by cashless transactions. The following are some expected effects of demonetization on the Indian education system:

Education institutions that take donations or capitation fees for admittance may suffer from the central government's decision to remove high-value bank notes in an effort to reduce unaccounted cash.

Because of the demonetization push, accepting and accounting for donations may become more challenging. 'You can purchase everything with money' is an Indian concept which has additionally affected the education system. Demonetization will undoubtedly stop many people in the nation from thinking like this.

The sectors that take donations the most readily include those that deal with nursery admissions, private schools, and professional higher education, including engineering and medical. These segments will be significantly impacted for the first time.

A significant quantity of cash donations, 40% to 50% more than the course fees, are accepted by private educational institutions. We anticipate that the recipient will be impacted by demonetization.

Donations are automatically linked to admission to both medical colleges and private educational institutions. In most medical colleges, donations exceed 100% of tuition. Both admissions and receipts will be impacted by demonetization.

MD seats can cost up to Rs 2 crore, while MBBS seats in certain colleges range between Rs 40 lakh to Rs 60 lakh. Seats in the engineering and management streams cost between Rs 2 lakh to Rs 10 lakh each. This action could alter the trajectory of costly education by making it more accessible without requiring a capitation fee.

When tangible financial transactions involving cash, currency notes, coins, or actual cash money are not conducted, the economy is said to be cashless. A cashless economy can be broadly defined as one in which there is no cash flow within an economy and all transactions take place electronically, such as when using credit cards, debit cards, electronic clearing, and payment systems like immediate payment service (IMPS), NEFT and RTGS in India. In India, a large number of people do not even now have a bank account, and the majority either lack the information necessary to use online payment methods or do not understand internet networks, connections, etc.

Certainly, this presents a significant difficulty for our nation, particularly in rural areas, small cities, and unexplored urban markets in India. As a result, solutions must be discovered, and this is only possible if citizens continue to push for further digitalization of the payment system. Make sure that thus, with a fast-expanding population, the Government of India faces a very difficult problem in developing its economy into a cashless economy. While the Indian government has implemented several digital and electronic payment choices, like Pay TM and Free charge, for rent payments using internet banking, and demonetization, it was the end of 2016. Since then, the Indian economy has quickly transitioned to a cashless society; however, there is still a lengthy waiting period until our economy can fully adopt cashless transactions. [3]

An economy that does not use cash is one in which all transactions are made using digital methods, such as digital wallets, debit and credit cards, card swipes, the machines, and online banking. The speed at which money can be transferred between individuals in a cashless economy is accelerated. However, a significant portion of the population remains unbanked, unable to use credit or debit cards, make payments with a mobile device, or use the internet to pay their bills. Following a detailed set of criteria, the Indian government implemented the Jan-Dhan Yojana, the SIT on black money, and tracking on foreign accounts and currency. Following demonetization, individuals lacked the funds to purchase certain goods, which led to the development of a cashless system. According to our research, the majority of people in our culture use cashless transactions. We also found out how many people use this method. [4]

Review of Literature:

Although a cashless system appears to be very advantageous, there are drawbacks and expenses associated with it. In the near future, it won't be feasible for an economy to have no cash at all because economies can achieve a certain degree of cashlessness before this process comes to an end (Skinner, 2012). In the literature review, there are statements made by consumers expressing happiness about being cashless, but few of them understand the wider consequences of this shift beyond online purchasing. [5]

In their reports, Alvares and Clifford (2009) discuss the issue of fake money in India. The fight against counterfeit money in the nation is allegedly becoming more difficult, and many of the fakes go unnoticed. It is also said that limited printing capabilities held by counterfeiters up until this point made it simpler to identify fakes. [6]

In the essay "E-payments and ebanking," P.M. Jain (2006) stated that e-payments will be able to check dark - An examination of the cashless transaction system's growth pattern. The best possible use of available cash for banks, financial institutions, business houses, and the average Indian citizen would be ensured by utilizing technology to its utmost potential and facilitating speedy payments and remittances. He also emphasized the necessity of communication networks, e-payment methods, and e-payment systems. [7]

This research paper, written by Zahoor Ahmad Shah (2017), aims to examine the state of the infrastructure required to facilitate digital payments and the various digital payment methods that are accessible in India. The secondary data released by RBI NCPI is used in the research. According to the study's findings, new technology has opened up new markets for digital goods, but India still has a way to go before adopting and creatively utilizing this technology. This study will contribute to our ongoing investigation into whether digital payments might turn India's economy into an international force by outlining the elements that must change in order to serve as a draw for adopting digital payments. By discussing the technologies and payment methods that India has access to up to this point, this research paper will contribute to our ongoing investigation into whether digital payments can turn the Indian economy into a powerhouse. [8]

Objectives:

- To identify the benefits of going cashless.
- To take up the challenges in making India cashless.
- To access growth of India on the path of being cashless in terms of digital transactions such as credit, Debit & bank payments.
- To serve the goal of RBI in electronification of payments.

Research Methodology:

The study is based on secondary sources of data/ information. Different books, journals, newspapers and relevant websites have been consulted in order to make the study an effective one. The study attempts to examine the Impact and Importance of Cashless Transaction in India.

Result and Discussion:

The Government of India's flagship initiative, Digital India, aims to make India a knowledge economy and a society empowered by technology. One of the stated roles of Digital India is "Faceless, Paperless, Cashless." A variety of digital payment methods are offered in an effort to encourage cashless transactions and move India toward a cashless society.

These modes are:



Figure 1: Various Modes of Digital Payments

Cashless Transaction: "An economy that does not use cash is one in which all transactions are made electronically or with cards. Physical cash is not used very often." In a cashless society, financial transactions take place via the transfer of digital information—typically an electronic representation of money—rather than actual currency, such as coins or banknotes, between the parties involved. [9]

Mode of Cashless Transaction:

- **Mobile banking:** Using a mobile device, such as a smartphone or tablet, mobile banking is a service offered by banks and other financial institutions that enables its clients to carry out financial transactions remotely. Typically, mobile banking is accessible a 24-hour. Mobile banking transactions might involve electronic bill payments, fund transfers between a customer's and another's accounts, account balance inquiries, and summaries of recent activities. You can access your banking services from anywhere in the nation with it.
- **Credit or Debit Cards:** These are two additional cashless payment options. Due to their many applications, credit and debit cards are being used for a growing number of transactions. Debit cards have the following benefits: they are safer than carrying cash, they can be used anywhere in the world due to Visa and MasterCard merchant acceptance, they eliminate credit card debt and worry about bill payments, anyone over the age of 18 can apply and be accepted without regard to credit quality, and they allow free direct deposits of government benefits and paychecks onto the card.
- **RTGS/NEFT:** Real Time Gross Settlement (RTGS) and National Electronic Fund Transfer (NEFT) enable people, businesses, and organizations to move money between banks. A list of bank branches that support RTGS and NEFT can be found on the RBI website. Only domestic money transfers are permitted to use these services. Should we choose to use these, we must fill out a form with our information and that of the

recipient, including name, account number, type, Indian Financial System Code, and bank branch code. In order to use this feature, we must submit a check.

- **Cheques:** One of the most widely used cashless payment methods is the cheque. Using this procedure, someone gives someone else a cheque for the specified amount. The individual deposits the cheque with the relevant bank. The bank clears the payment in two days. A cheque has a maximum validity of three months from the date it is issued. There is documentation for each cheque transaction, serving as proof of payment. People can employ cashless transactions to avoid all of these problems in their cheque books, even if there is a potential that a check will be dishonored due to insufficient funds or a mismatched signature.
- **Unified Payment Interface (UPI):** The National Payments Corporation of India (NPCI) introduced UPI, a single window mobile payment system. With the use of a "single identifier," which can be an email address, mobile number, or Aadhaar number (similar to the Social Security number), the system is intended to enable sending and receiving of money via smartphone using a straightforward, safe, and convenient "single interface." It removes the requirement for customers to input sensitive data, such as bank account details, each time they start a transaction.
- **The process of a cashless transaction:** It makes sense that money would go digital in this increasingly digital environment. Current trends indicate that credit cards and even real cash will eventually be replaced by digital money stored in mobile wallets. Here is an illustration of a cashless transaction process. [10]

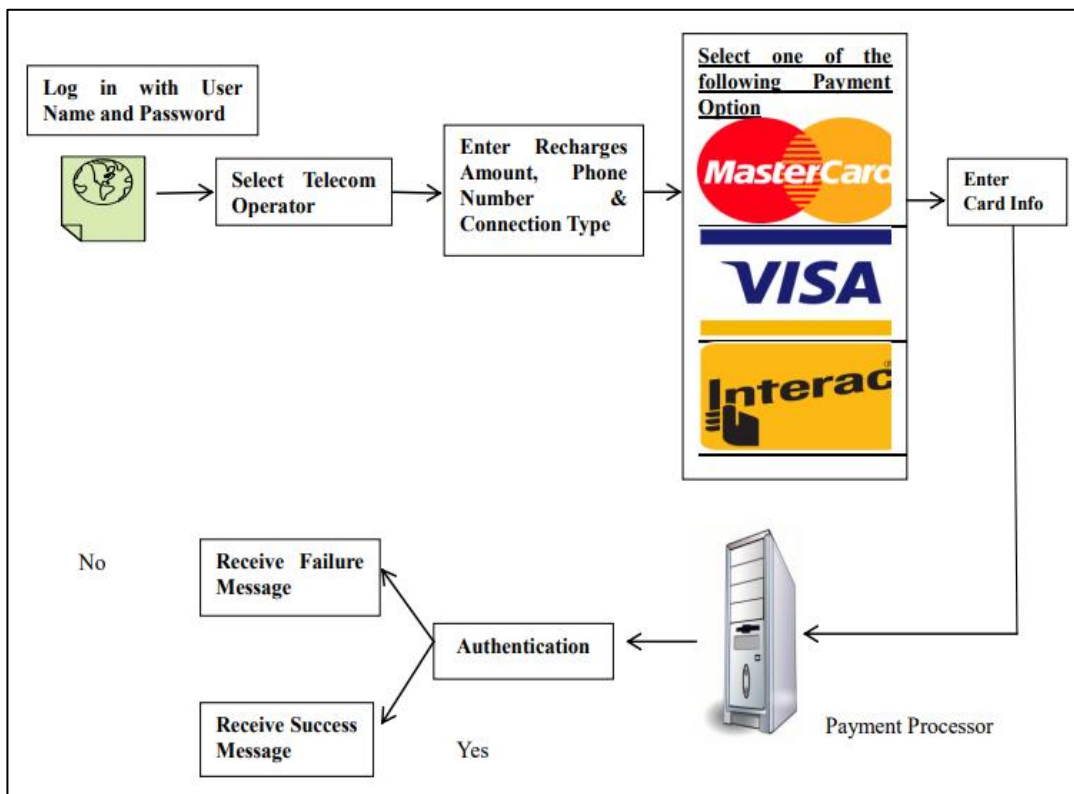


Figure 2: Process of Cashless Transaction

- Enter your username and password to log in: The user inputs their password and username.
- Choose the Telecom Operator: The user can choose the telecom operator of his choice.
- Enter the connection type, phone number, and recharge amount: Enter the user's cellphone number, connection type, and recharge amount.
- Choose from the following payment options: Choose a payment method, such as a debit card or ATM card.
- Enter the details for your card: Input the card's details, including the pin number.
- Payment Processor: The money is being sent.
- Authenticate if it has been confirmed or not: If the answer is yes, a success message will be sent. If not, get a Failure notification. [11]

Retail Electronic Payments:

The goal of the government's cashless economy policy in India is to increase financial system penetration, decrease the illicit economy, and hold financial institutions more accountable for the movement of money.

Inter-bank money transfer methods like NEFT, or National Electronic Fund Transfer, electronic clearing systems, and credit and debit cards dominate the retail electronic payment market in India.

Prepaid wallets are among the more recent payment methods that are gaining popularity, along with mobile banking.

Customers can now transfer money between bank accounts using their mobile money IDs due to the Interbank Mobile Payments Service, which was established by six banks, including the largest private sector bank in India, ICICI Bank, and the largest public sector bank, State Bank of India.

Table 1: Retail Electronic Payments

Category	Percentage
ECS	15%
Credit Card	21%
Debit Card	26%
EFT/NEFT	28%
Prepaid payment instruction	6%
Mobile banking	4%

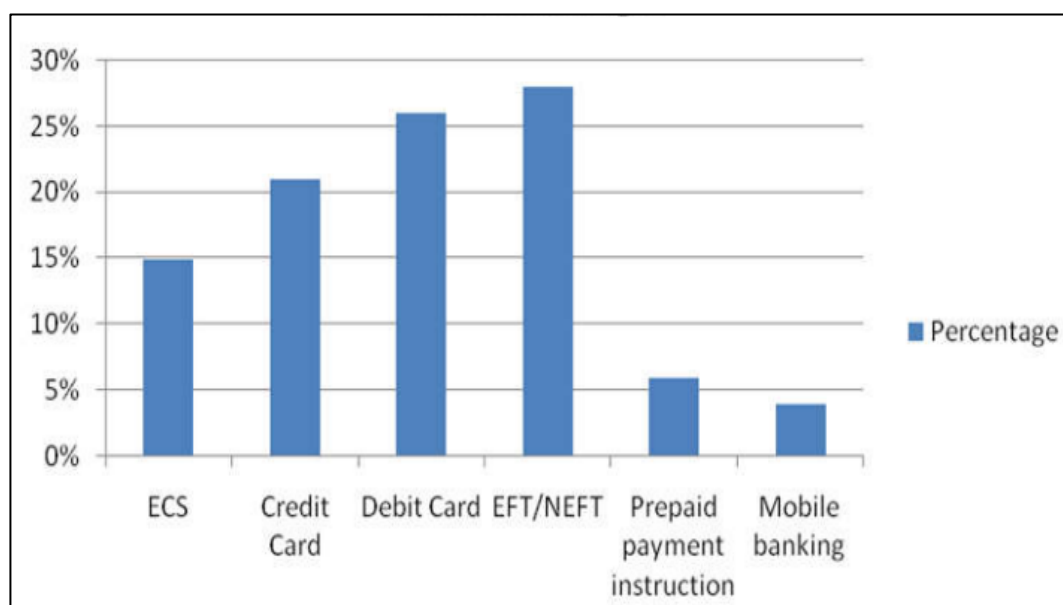


Figure 3: Percentage [12]

Growth In Digital Payments in India:

With the introduction of credit cards in the 1980s, digital transactions began in India. The nation witnessed a sharp increase in awareness, the number of people using mobile devices and the Internet, and the number of people using digital payment methods. As demand increased, other companies and applications emerged.

Since 2010, the volume of digital transactions in India has increased significantly. There were 4.98 billion digital transactions in the nation in FY 2010–11, with a total value of Rs. 96 lakh crores (or almost US\$ 1.3 trillion).

The quantity of transactions increased to 16.23 billion in FY 2020, and their value rose to Rs. 3,435 lakh crore (or around US\$ 45.9 trillion). Over the course of FY 2010–2020 (the previous 10 years), this amounted to a compound annual growth rate (CAGR) of 43% in value and 12.54% in transaction volume.

Before, the RBI and Payment Systems Operators (PSO) solely were responsible for managing the payment systems, which offered about five different payment options. The NPCI is now in charge of a number of additional payment options that are offered to users.

In FY 2010–11, paper payments accounted for the majority of transactions. The percentage of cash payments made declined while the number of electronic payments rose dramatically as a result of greater awareness, the economy, literacy, and Internet penetration.

In the pie charts below, shares held through retail transaction methods in FY 2010–11 and FY 2019–20 are evaluated.

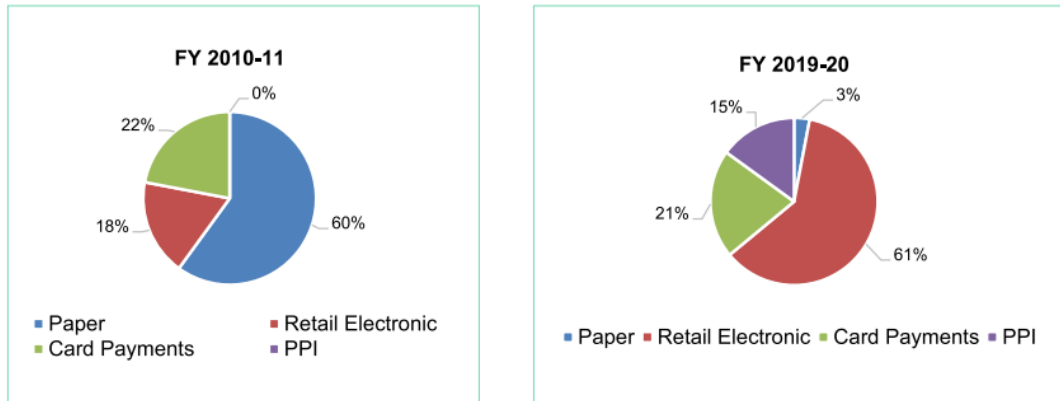


Figure 4: Retail Transactions in Terms of Volume during FY 2010–11 and FY 2019–20 (Source: RBI Data)

As previously indicated, during FY 2010–11, the bulk of transactions were made using the paper payment method, which accounted for 60% of all payments made during that time. The remaining 40% of all payments were made using a combination of retail electronic, card, and PPI payment methods. This was my self during India's slow transition to digitization, when the majority of people chose to make cash payments. The preferred method of transaction shied towards the electronic mode during FY 2019–20; the digital payment mode accounted for 97% of the total payments and paper-based payments accounted for only 3%.

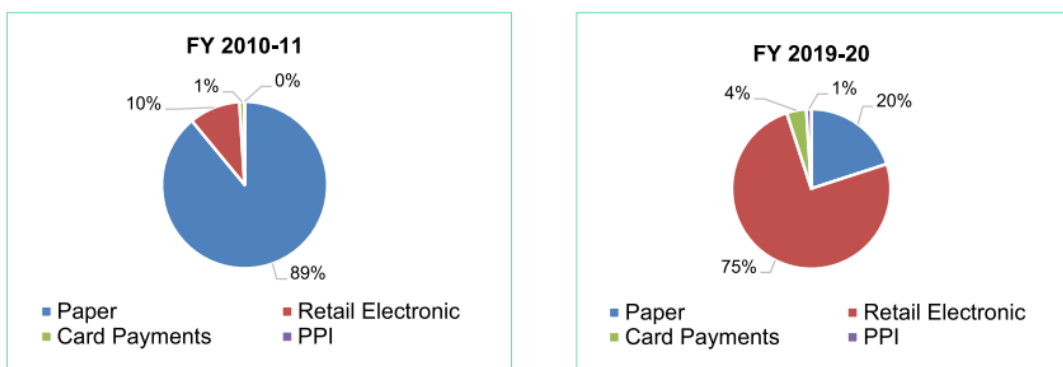


Figure 5: Retail transaction in Terms of Value during FY 2010–11 and FY 2019–20

The following is a comparison of shares held by different payment methods based on transaction values for the fiscal years 2010–11 and 2019–20. In FY 2010–11, paper transactions made up 89% of the total value, with the remaining 11% coming from other electronic methods like retail electronic, card payments, and PPI. Paper transactions made up 20% of total transaction value in FY 2019–20; the remaining 80% were paid for via electronic payment methods.

The RBI data indicates that the payment systems had a strong 26.2% volume rise in 2020–21, after 44.2% growth the year before.

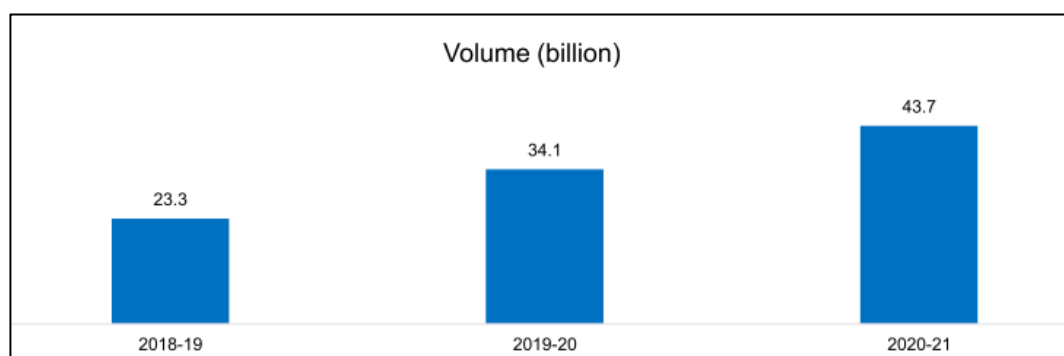


Figure 6: Increase in Volume of Total Digital Payments

In the two years, there was an 88% growth in the total amount of digital payments, which went from 23.3 billion in FY 2018–19 to 43.7 billion in FY 2020–21. From 97% in FY 2019–20 to 98.5% in FY 2020–21, the amount of non-cash payments grew. This demonstrates the efficacy and prospects of digitalization in India. [13]

Conclusion:

Given its scope and rate of change, the digitization of everything represents a quantum leap forward even bigger than the creation and uptake of the internet. In a few years, the term "digital" won't apply to what we currently refer to as such. For those who don't know any different, a "digital camera" is already just a "camera." A "digital" strategy will likewise become the standard operating procedure. A cashless economy can be reached by implementing suitable and efficient digital payment mechanisms for monetary transactions, even though going completely cashless is practically unfeasible. In order to do this, the Indian government needs to allocate funds on a regular and ongoing basis to new financial policies, bankers, government agencies, and other commercial service providers. Services such as quick payment certification, a transparent account statement, no additional fees, complete financial control, and a shortened transaction procedure by providing the necessary information are examples of safe and secure offerings.

In summary, the majority of the world's main developed nations are transitioning to cashless economies in a very good way. India has a long history of putting off development, but the time has come for the country to move forward at full speed and establish a new legacy. India should gladly embrace going cashless in its economy, just like other wealthy nations have, so that we can all benefit from it.

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