

Cashless Transaction in India: A Study

Rudresha C.E

Assistant Professor
Department of Commerce
Akshara Institute of Management Studies (AIMS)
Savalanga Road, Shivamogga.
Karnataka, India.

Abstract: Cashless economy is an economic system in which there is little or very low cash flow in a society and goods and services are purchase and paid amount through electronic media. Cashless economy is the economy in which transactions are made by debit cards, credit cards, e-wallet, cheques or direct transfer from one account to another through e-banking. According to Government of India the cashless transactions will maximize employment opportunities in the economy, avoid cash related robbery thereby minimizing risk of carrying physical cash. Cashless transactions will also decrease cash related corruption and attract more number of foreign investors to the country. The present study focuses on concept and methods of cashless transactions in India. Besides, the study examines the benefits and limitations of cashless economy to the general public.

Keywords: Cashless Economy, Electronic Media, Transactions, E-banking, Government.

Introduction

The RBI and the Government of India are making various efforts to minimize the use of physical cash in the economy by promoting the digital payment devices or modes including prepaid instruments and cards. RBI's effort to encourage these new varieties of payment and settlement facilities aims to achieve the objective of a 'less cash' society. Here, the term less cash society and cashless transaction economy indicate the same thing of minimizing cash transactions and settlement rather doing transactions digitally. Cashless transaction economy doesn't mean shortage or scarcity of cash rather it indicates a culture of people settling transactions digitally. In a modern economy, money moves electronically. Hence the spread of digital payment system along with the expansion of infrastructure facilities is needed to achieve the goal.

On November 8th, Government banned Rs 500 and Rs 1000 two highest denominations notes from circulation. Main objectives were to fight counterfeit money and black money circulation in economy. The action has given tremendous boost to cashless transactions as card based and digital payments systems were not hindered when all high value denomination cash transactions suffered because of absence of high denomination currencies in circulation.

The Reserve Bank of India and Government of India has launched different measures for the spread of electronic and other non-cash settlement culture in an economy.

The Vision-2018 for Payment and Settlement Systems in India brought by the RBI in June 2016 reiterates the commitment to encourage maximum use of electronic payments by all sections of society so as to achieve a "less-cash" society.

"The wide contours of Vision-2018 revolve around five Cs — Coverage, Convenience, Confidence, Convergence, and Cost. To achieve these, Vision-2018 will mainly concentrate on four strategic initiatives such as responsive regulation, robust infrastructure, effective supervision and customer-centricity," – RBI. The vision statement highlights following plans:

- The regulator wants to minimize the share of paper-based clearing instruments
- It aims to raise growth of the digital payments system in an economy
- It wants to ensure maximize the use of Aadhaar in payment systems

Government also made various fiscal measures for the encouragement of card culture in the 2016 budget. Exempting service charge on card-based and other digital payments system was one such step.

Aadhar based payment system will be a big boost for encouraging the cashless transaction culture.

A committee of seven members, chaired by a ministry official, Mr. Neeraj Kumar Gupta was formed to recommend some steps for the reduction or minimization of paper cash based transactions in an economy.

The technology has spread internet banking system or core banking solutions, mobile banking, prepaid instruments, credit and debit cards etc. concurrent, electronic payments system is fast growing. All these measures indicate that India is moving towards the RBI's goal of less cash economy-steady but slowly.

It's time to go cashless transactions system. The purpose of demonetization is not only to remove or avoid black money in transaction but also to encourage cashless payment method. Instead of breaking heads by standing in Automated Teller Machine (ATM) queue you should adopt a cashless method for the transaction. A cashless method is more transparent as each and every transaction can be traced easily as it leaves its footprints. Many people have adopted new cashless payment options.

Objectives of the Study

1. To know the concept of Cashless transactions
2. To understand the modes of Cashless transactions
3. To understand the merits and demerits of Cashless transactions

Concept of Cashless Transactions

Cashless Economy can be defined as a situation in which the flow of cash within an economy is non-existent and all transactions must be through electronic channels such as direct debit, credit cards, debit cards, electronic clearing, and payment systems such as Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS) in India. In a cashless economy most of the transaction will be done by digital means like e banking, debit and credit cards, PoS (point of sales) machines, digital wallets etc. In simple words no liquid money or paper currency will be used by the people in a given country. In a cashless economy the third party will be in possession of your money. He will allow you to transact that money whenever it is needed. If it is not needed then the third party can use that money. Third party can be a government or any other public or private sector bank.

Research Methodology

The present study is based on descriptive in nature. The study has been carried out based on the collection of the available secondary data. Secondary data was collected from different sources such as articles published in different journals & newspapers, published books, periodicals, conference paper, working paper and websites, etc.

Statement of the Problem

An extension of demonetization process, the cashless transaction system are implemented impact the significant changes in the behavior of consumer. In India most of the consumers are heavily dependent only on the cash economy, now the consumers have to switch from cash to cashless electronic transactions. Most of the consumers have been using more on cash for purchase of products and service except few. Currently the government announced that all restrictions for the traditional cash transaction and offers for electronic transfer push the consumers to adopt and implement cashless transaction for their needs. In the context of the above, this study makes an attempt to understand the concept, methods, merits and demerits of cashless transaction in India.

Review of Literature

Borhan Omar Ahmad Al-Dalaïen (2017): Examined that cashless economy is an economic system in which there is little or very low cash flow in a society and goods and services are bought and paid through electronic media. There are many benefits of cashless economy like faster transactions, increased sales, prompt settlement of transactions, convenience and lower risk, transparency and accountability, and reduced maintenance costs. Despite many benefits, there are several challenges before cashless policy in India such as inadequate number of ATMs, digital illiteracy, lack of internet facilities, few banks in villages, costly swipe machines etc. The findings revealed that there are no significant benefits of cashless economy to the general public.

Preeti Garg & Manvi Panchal (2017): Examined that many people actually positive opinion about cashless transactions and usefulness of cashless economy as it helps to fight against terrorism, corruption, money laundering but one major problem in the working of cashless economy in India is cybercrimes and illegal access to primary data. Therefore it's important to strengthen Internet Security from protection against online frauds. Huge number of population in India is still below literacy rate living in rural areas. For smooth implementation of cash less system in India, the following some measures are recommended Government have to bring transparency and efficiency in e-payment system, strategies used by government and Reserve Bank of India to motivate cashless transactions by licensing payment banks, promoting mobile wallets and withdrawing service charge on cards and digital payments. A financial literacy campaign should be conducted by government continuously to make population aware about advantages of electronic payments.

Sheetal Thomas & G. Krishnamurthi (2017): Examined that there is enormous potential that rural economy in India can become a cashless economy. The rural population is ready to learn it, with one person receiving benefit soon the rest of the village will follow. Keeping the level consumption patterns and the recent trends into mind the government can plan for implementation of basic support system like, incentivizing the use of internet through free data and smart phones, distribution of laptops to students taking higher education in nearby towns. Another way is by creating awareness about digital transactions and financial literacy among rural people by partnering with different educational and NGO's. It can make the cashless rural economy a reality from dream.

Dr. Tushar Chaudhari (2017): Cashless transaction systems are not possible without adequate internet facilities, so government must investigate in infrastructure availing internet. Especially free wi-fi zones should be made available at local market .All the major banks must have separate counter which will be particularly used for assistance and guidance for cashless transaction system. Extra charges on Cashless transaction must be stopped. It should be made compulsory to all cooperative societies to make Cashless transaction specially cheque or demand draft. Some advantages must be given to the people who are using Cashless transaction. The vast advertisement campaign must be launched which will not only develop Cashless transaction but also will provide valuable assistance in using it.

Dr. Anthonima K. Robin (2018): This study focus on cashless transaction is having a long term impact on the lives of the people. As there are two sides of coin, there are positive and negative impact of the scenario generated after demonetization. With the increasing usage of cashless means people are tend to feel save as they are free from carrying a wallet full of physical notes along with us, which is not at all safe in a world full of anti-socials activities. People rather prefer to use mobile as the most effective method of payment. Mobile have started serving as an important instrument for all kinds of transactions such as bill payments, fees payments, funds transfer, recharge, etc. . In further to this, some other crimes such as burglary, extortion, bank robbery, etc. are also declining. One of the most important motives to implement and motive cashless transaction is to take control on the illegal transactions and all activities related to terrorism.

Dr. Budheshwar Prasad SinghraulV(2018) : The major findings of the study show that India in terms of using digital payment methods is still very poor in comparison to other developed countries in the world. As many countries are already turned up with their electronic payment system, India is in its beginning stage and all most of all population are mainly dependent on paper cash based transaction because of unavailability of proper internet connectivity, lack of awareness and knowledge of financial transaction, charges on card payments and un operational bank accounts.

Methods of Cashless Transactions

The Digital India programme is an important programme of the Government of India with a vision to transform India into a digitally empowered society and knowledge economy. "Faceless, Paperless, Cashless" is one of professed role of Digital India. As part of promoting cashless transactions systems and converting India into less-cash society, various methods of digital payments are available. They are as follows

1. Cheque

The cheque is one of the oldest or conventional methods of cashless payment mechanism. It is a well known method to everyone. In this method, you issue a cheque for the specific amount to someone else. The cheque gets deposited in the respective bank account. The bank processes a payment through a clearing house.

The whole transaction done through cheque gets recorded and there is a document of payment. However, but sometimes cheque payments get dishonored due to signature mismatch or insufficient fund in bank accout. In order to avoid such problem, you can use other cashless payment options.

2. Demand Draft

Demand draft is another primary way of cashless transaction. It is a very safest method to receive payment from anyone. Demand draft (DD) never gets defaulted as it is signed by the banker. The drawbacks of DD and cheque are you need to visit a bank in order to deposit cheque and demand draft. The clearance of cheque or DD takes additional time.

3. Online Transfer- NEFT or RTGS

The third simplest way for the cashless transaction is online transfer using NEFT or RTGS. In order to do online money transfer, you need internet banking facility. Online transfer using NEFT or RTGS is comparatively faster than Cheque or DD. Online transfer can be done from anywhere using internet facility.

4. Credit Card or Debit Card

Credit card or Debit card is another method of cashless payment. The usage of credit card and debit card was limited in India compared to other developed countries in the world. However, usage of credit card and debit card is increasing now a day. The limitation of this payment method is an availability of swipe card facility (PoS) at merchant end.

5. E-Wallets

E-wallet means Electronic Wallet is another cashless payment options are available for people. E-wallet can be used to purchase products or services starting from grocery to airline tickets. In order to use E-wallets customer and merchant, both require a smart phone with active internet connection. The most popular example of E-wallet is PayPal. Apart from PayPal, you can also use Payoneer, Transferwise, Skrill, PayZa and others.

After registering for E-wallet you need to link your credit card or debit card with your E-wallet id. You can use E-wallet for fund transfer from one account to another account or online shopping. It is a simplest cashless method.

6. Mobile Wallets

The next cashless payment option is a mobile wallet. You do not required debit card, credit card or internet banking password for making payment using a mobile wallet. Just load money in your wallet via IMPS and use it on the move. You can download mobile wallet app from play store in smart phone. Some examples of mobile wallets are Paytm, PayUmoney, Oxigen, Lime, MobiKwik etc.

7. UPI Apps

UPI is a mobile payment method which allows you to do different financial transactions on your smart phone. UPI allows you to send or receive money using virtual payment address without entering bank information. Merchants can enroll with banks to accept payments using UPI. Like in the case of a PoS machine, the merchant would require a current account with a bank to accept UPI payments.

The examples of few UPI Apps are SBI Pay, ICICI Pocket, Axis Pay UPI App, Union Bank UPI App, PNB UPI, PhonePe, TranZapp etc.

8. Gift Card

The next cashless payment system is a gift card. Gift Card is a readymade card and can be purchased from a merchant or from the bank. The gift card is loaded with a fix cash amount you can purchase any item from the specific vendor by using a gift card.

9. Aadhaar Enabled Payment System

Aadhaar Enabled Payment System (AEPS) is one of the better and transparent cashless payment methods. AEPS is like Micro ATM, it uses smart phone and a finger-print scanner for the transaction. In order to use this facility, it is compulsory to link your Aadhaar card number to your bank account. You can use AEPS in order to perform transaction like Aadhar to Aadhar fund transfer, Cash withdrawal, Cash deposit etc.

10. Unstructured Supplementary Service Data

You can use USSD cashless method if you don't have a smart phone or internet connection. Unstructured Supplementary Service Data is mobile banking service. From any mobile phone, you can dial *99# and use this service. You can do all these things which are available to a person with smart phone and internet connection. Almost all banks including SBI, ICICI, BOB, Axis Bank and PNB support USSD payment option.

Merits of Cashless Transactions

1. Electronic payments will be beneficial for business people to increase their customer base even in far of geographic locations and hence will result in increased business transactions.
2. The real estate prices will come down because of curb on black money circulation, as most of the black money is invested in Real estate's business.
3. Electronic payments will enhance transparency and accountability. Majority of the cashless societies are corrupt free as all the transactions are being traced, are visible and are transparent.
4. Making online payments are handy and it will lead to slim wallets as people need not carry hard cash.
5. Majority of election funding is done through black money. Cashless transactions will make it impossible for political parties to spend thousands of crores of unaccounted money on election purpose. Purchasing votes by giving cash will also come to an end. True democracy will come into picture.
6. Amount of tax collected will also maximize, and it can be spent for the betterment of poor and under privileged people and infrastructure development activities in economy.
7. Generation of counterfeit currency will be decreased and hence terrorism can be prevented.
8. It will minimize pick pocketing and robbery of cash in crowded locations and big cities.
9. Through online payment one can check history of their financial transactions and plan their budget in a smart way.
10. Printing costs of paper notes, coins and maintenance itself is accounting to 27 billion; this can be eliminated by electronic payments as there would be no need of paper currency.

De-merits of Cashless Transactions

1. Many of the rural people and even some urban people still do not have a functional bank account in order to make online payments.
2. A large number of India's population is in rural areas, and there are no proper internet facilities available to make online payments.
3. People in rural locations are not well educated about the digital mode of payment system.
4. Even today some places which take paper cash and do not accept debit and credit cards. Making a purchase at such places with card becomes very difficult to customers. Small retailers in India still deal only in paper cash as they cannot afford to invest in digital infrastructure facilities.
5. Cash is not under our control, people will spend excessive amount for purchase of goods and services.
6. If you lose your debit/credit card, it takes some time to get a new one.
7. Hacking and cyber theft are major and challenging problems which can be caused by online transactions. Cyber Security measures have to be brought in place to avoid money going into wrong hands.
8. Even in big cities, sometimes online transactions cannot be made because of poor internet facilities or network problems.

Findings and Suggestions

The findings of the study show that India in terms of using digital payment methods is still very poor in comparison to other developed countries in the world. As many countries are already adopted payment system in an economy, India is in its developing phase and most of the population are dependent on cash based transaction because of unavailability of proper internet connectivity, lack of information and knowledge of financial transaction, charges on card payments and un operational bank accounts.

India needs to come up with the new policies of electronic transactions. It is recommended that government should promote their agencies and private sector service providers to spread financial literacy at a great extend especially in rural areas. Government should provide extra benefits on digital transaction payments and offer extra incentives or interest rate on cash saving in bank accounts. At the same time reduction in charges of digital transaction or exemption completely on digital banking should be offered for few initial years which can be more helpful for speeding up the process of digitalization of payments in India.

Conclusions

The study concludes that cashless transaction economy is one of the good and strong decisions of government of India. Many people accept the concept of cashless transactions system. It helps to fight against major illegal or unethical activities in the economy like terrorism, corruption, money laundries etc. But main problems are the working of cash less transaction in India is cyber crime and illegal access of customer's data. Therefore it's important to strengthen internet security from protection against online mischievous. Customers and small retailers are faced the high degree of risk and problems in the application of cash less transaction. The main reason is low literacy rate in rural area. Government should be educated towards cash less transactions services. Government tries to promote customers mind towards the risk factors. Cashless transaction helps to develop the Indian economy is more strong. Hence, each and everyone should access and use the digital based transaction. The Government to need more efforts financial literacy campaign time to time to make population aware of benefits of electronic payments.

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