



A CRITICAL REVIEW OF CASHLESS SYSTEM OF IN INDIAN ECONOMY

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Abstract

Demonetization in October 2016 was a memorable experience for every Indian and it is definitely one of the important economic events of our time. Its brunt was felt by everyone. It affects the economy with special reference to liquidity. It is a progressive shift from cash to cashless economy with more focus on e-transactions.

Government is also constantly encouraging the people of India to go cashless and reduce dependence on cash transactions and instead adopt digital payment methods. So, what is meant by 'Cashless' and what are the advantages and disadvantages of a country going. Firstly if we want cashless transaction or economy or every transaction without cash we must have to provide knowledge about plastic money, e-payments and security to citizens.

This paper consists about digitalization of India and Indian economy through remonetisation and cashless economy with digitalization.

This paper estimates the amount of cashless transactions that is prevalent in India. The study was conducted in Bihar region & data was collected with the help of structured questionnaire and analysed using simple percentage method. The objective is not to gauge the emotions actually experienced in a 'real-time' event but to discover perceptions of persons while making payment in different modes. It will provide insight into possible cognitions and emotions experienced when paying for transactions that may influence such experiences.

Keywords:-Demonetization, E-Transactions, Digitalization, Plastic Money, Indian Economy

1.0 Introduction

The government has implemented a major change in economic environment by demonetizing the high value currency notes of – Rs. 500 and Rs. 1000 from 8th November 2016 and push India towards cashless future.

Definition of Cashless Economy

A cashless economy is one in which all the transactions are done through electronic channels such as debit/credit cards, Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS). The circulation of physical currency is negligible in such a system.

Types of Cashless Modes and Payments

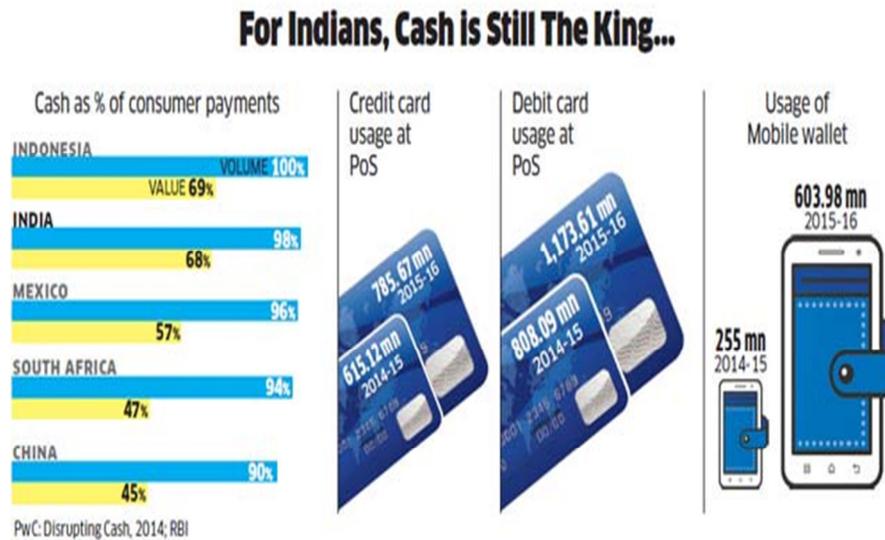
Mobile wallet: It is basically a virtual wallet available on your mobile phone. You can store cash in your mobile to make online or offline payments. Various service providers offer these wallets via mobile apps, which is to be downloaded on the phone. You can transfer the money into these wallets online using credit/debit card or Net banking. This means that every time you pay a bill or make a purchase online via the wallet, you won't have to furnish your card details. You can use these to pay bills and make online purchases.

Plastic money: It includes credit, debit and prepaid cards. The latter can be issued by banks or non-banks and it can be physical or virtual. These can be bought and recharged online via Net banking and can be used to make online or point-of-sale (PoS) purchases.,

Net banking: It does not involve any wallet and is simply a method of online transfer of funds from one bank account to another bank account, credit card, or a third party. You can do it through a computer or mobile phone.

The Indian economy continues to be driven by the use of cashless than 5% of all payments happen electronically. Electronic based transaction seeks to drive the development and modernization of India's payment system. The essence of the policy is to shift the economy from a cash based economy to a cashless one. Efficient and modern payment system is a key enabler for driving growth and development. The policy also aims at improving the effectiveness of monetary policy, managing inflation in the economy, maintaining stable pricing system.

Figure-1.1



Source: Turning India into a ‘Cashless Economy’ – A feasibility report (23 Dec. 2016).

Retrieved from:<http://byjus.com/free-ias-prep/cashless-economy>

2.0 Literature Review

Bansi Patel, Urvi Amin in their article “Plastic Money: Roadmap Towards Cash Less Society” the world glance as per technology changes suitable changes should be adopted by the economy. And among all the changes in economy lead to some drastic changes in to the transaction. Now days in any transaction Plastic money becomes inevitable part of the transaction. And with it life becomes easier and development would take better place. Relating to Indian scenario how the plastic money took place in the banking world would be focus by the researcher over here. And along with the plastic money it becomes possible that control the money laundry and effective utilization of financial system would become possible which would also helpful for tax legislation.

Reddy, Ramakrishna (2006) in his article “Card products in India” commented about the reasons for not attaining full growth potential among card products and suggest remedies for growth in this field for the benefit of all players.

Ashish Das, and Rakhi Agarwal, (2010) in their article “Cashless Payment System in India- A Roadmap” Cash as a mode of payment is an expensive proposition for the Government. The country needs to move away from cash-based towards a cashless (electronic) payment system. This will help reduce currency management cost, track transactions, check tax avoidance / fraud etc., enhance financial inclusion and integrate the parallel economy with main stream.

Kearney and Schneider (2011, 2013) estimate the shadow economy in Europe and establish a strong negative correlation between the size of cashless transactions and the size of the shadow economy.

Moody's Analytics (2013), studying the impact of card usage on gross domestic product (GDP) of 51 countries, found that electronic card usage added USD 1.1 trillion in real dollars to private consumption and GDP from 2003 to 2008. The study found that a 1% increase in card transaction volume would increase consumption each year by 0.039% and GDP growth by 0.024%.

Zandi et al. (2013), studying 56 countries over 2008–2012, calculate that USD 983 billion were added to their cumulative real GDP because of increased card usage. This amounts to 0.3% of their GDP per year. They estimate that a future 1% increase in card usage across these countries would produce an annual consumption increase of 0.056% and a GDP increase of 0.032%.

3.0 Research Objectives:

The objectives of the present study have been discussed below:

1. To study the benefits of cashless economy
2. To evaluate the customer trust and confidence in Cashless Transaction System.
3. To examine the risk associated with Cashless Transaction System
4. To assess the preparedness for the implementation of the cashless economy by Indian Government.

4.0 Research Methodology

The study is conducted to obtain data on Introduction of Cashless economy in India. The study is conducted in Bihar region. A sample size of 100 was selected using the convenience sampling procedure out of which 87 copies were retrieved in usable form. This represents a response rate of 87%. The responses from the respondents were collected and analyzed using the simple percentage method.

5.0 Advantages /Benefits of Cash less Economy

- Circulation of Fake Currency notes can be curbed.
- It also improves monetary policy in managing inflation and increases economic growth in our country.
- A cashless economy will help reduce corruption.
- Increased tax base would result in greater revenue for the state and greater amount available to fund the welfare programmes.
- Digital transactions bring in better transparency, scalability and accountability.
- Digital transactions are convenient and improves market efficiency

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- Transaction costs will come down in the long run
- It would bring down the logistics & cost involved in printing, managing and moving money around.
- Another benefit of cashless economy is that it discourages cash related robberies and other cash-related crimes.

6.0 Data Analysis

Table -6.1: Consumer awareness and perception regarding cashless system

Are you aware about the cashless initiative take by Government of India	Strongly Agree	36	41.4
	Agree	41	47.4
	Undecided	3	3.4
	Disagree	6	6.9
	Strongly Disagree	1	1.1
	Total	87	100.0
Do you feel that Cashless Economy should be introduced in India	Strongly Agree	25	28.7
	Agree	23	26.4
	Undecided	16	18.4
	Disagree	11	12.6
	Strongly Disagree	9	10.3
	Missing	3	3.4
	Total	87	100.0

Source: Primary Data

Interpretation:-

Above Table shows that there is a high degree of awareness among the population about 88% of the respondents are aware of cashless economy in India. Few respondents however show a strong dislike for the cashless economy. While 55.1% of the respondents prefer that cashless economy should be introduced in India. The following reasons might have accounted for the low enthusiasm about its immediate introduction, the lack of preparedness for the system, the nation having other problems to solve now, freedom to use cash to any amount, inadequate technology, and that the flow of money will be hampered.

Table-6.2: Perceived Benefits of the cashless economy

Reduction of fake currency	Strongly Agree	35	40.2
	Agree	35	40.2
	Undecided	9	10.3
	Disagree	5	5.7
	Strongly Disagree	3	3.4
	Total	87	100
Prevention money laundering	Strongly Agree	20	23.0
	Agree	28	32.2
	Undecided	17	19.5
	Disagree	10	11.5
	Strongly Disagree	11	12.6
	missing	1	1.1
Total	87	100	
Reduction in corruption	Strongly Agree	13	14.9
	Agree	23	26.4
	Undecided	19	21.8
	Disagree	19	21.8
	Strongly Disagree	12	13.8
	Missing	1	1.1
Total	87	100	
Fuel economic growth	Strongly Agree	18	20.7
	Agree	31	35.6
	Undecided	25	28.7
	Disagree	8	9.2
	Strongly Disagree	3	3.4
	Missing	2	2.3
Total	87	100	

Source: Primary Data

Interpretation:-

Above Table shows that 80.4% of the respondents believe that the most significant benefit of the cashless economy is reducing the risk of fake currency. In the same spirit, 55.2% of the respondents believe that the cashless economy will help to fight against money laundering as

the money flowing through the system can easily be traced. 41.3% of the respondents believe that it contribute towards reducing corruption.

Another benefit is that it will stimulate economic growth as money hidden in other illegitimate areas will now be freed up. 66.3% believe that efficient and modern payment system is positively correlated with the economic development and economic growth of country.

7.0 Conclusion

The cashless transaction system is reaching its growth day by day. The cashless system is not only requirement but also a need of today society. All the online market basically depends on cashless transaction system. The cashless transition is not only safer than the cash transaction but is less time consuming and not a trouble of carrying and trouble of wear and tear like paper money. It also helps in record of the all the transaction done.

On the primary data is can be concluded also that many people actually agree with the government on the usefulness of cashless economy as it helps to fight against terrorism, corruption, money laundering but one biggest problem in the working of cashless economy in India is cybercrime and illegal access to primary data. Therefore it's important to strengthen Internet Security from protection against online fraud. Large number of population is still below literacy rate living in rural areas.

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