

## Cash to Cashless Economy: A Distant Dream

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### ABSTRACT

*Cashless economy is an emerging concept which leads way for digital transactions and brings transparency in the financial system. Now-a-days, many developing countries, including India are adopting cashless approach and going digital. The present article is aimed at analyzing the growth in India's digital journey. The article also highlights the hazards and gains associated with cashless economy. The article reveals that banking infrastructure, illiteracy, internet cost, poor internet connectivity and cyber crimes are the biggest roadblock India faces in setting up a cashless economy. There are tasks ahead in India's digital journey and required infrastructure needs to be built before we hope for a major change. Thus, a move without appropriate preparation would be more disastrous than advantageous and a gradual move towards a less-cash society can be welcomed.*

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### INTRODUCTION

Cashless economy is an emerging idea which is trending in the entire world. Eminent economists have suggested cashless economy as the best form of modern economy. The vast majority of the western countries are swiftly moving towards cashless economy [1].

Let us first understand what does cashless economy implies? A cashless society describes an economic state whereby financial transactions are no longer conducted with money in the form of physical banknotes or coins, but alternatively through a transfer of digital information between parties [2]. In cashless economy all transactions are done via digital means such as debit and credit cards, NEFT (National Electronic Fund Transfer), RTGS (Real Time Gross Settlement), etc. [3].

The trend towards use of non-cash transactions and settlement began in daily life during 1990s, when electronic banking became popular. By 2010, digital payment methods such as PayPal, digital wallet, NFC payments by electronic card or smart phones, etc. were widespread in many countries [2]. This is possible in mostly those countries where there is greater literacy and citizens know the advantages of going cashless. A very important factor in the running of such an economy is the confidence that the people's money is safe in banks. Also, going cashless is more convenient. It is the most effortless way to transact and brings about a lot more transparency in the financial system, which helps in curbing black money, discourages tax evasion and at last, leads to lesser funding for illegal trade and activities including terrorism. Accordingly, due to the multiplying benefits, many developing countries are embracing cashless approach and going digital [4].

India too is moving towards a cashless transaction economy by limiting the use of physical cash. The leading advantage of building cashless economy is elimination of black money. Digitization of transactions is the superior way to move towards cashless economy. Such a cashless economy is realizable by promoting electronic money instruments,

developing financial infrastructure and spreading digital transaction habits among people [5].

On November 8, 2016, the Government of India took a powerful initiative to eradicate black money and corruption from Indian economy by scrapping all notes of Rs 500 and Rs 1000. It has been described as an exceedingly controversial or creepy move since such a move would be both potentially useful and harmful with widespread ramifications for the society [6].

Cashless societies have existed, based on barter system and other method of exchange. However, this article concentrates on the term 'cashless society' in the sense of a move towards a society where cash is supplanted by its digital equivalent.

### CASHLESS ECONOMY: AN OVERVIEW

Cash is like water, a basic need in the absence of which survival is a challenge. Around 85% of worldwide payments are still made in cash. One of the fundamental reasons is that there is nothing to genuinely compete with the suppleness of notes and coins. Obviously, digital era is something to embrace, but Indians need to recognize the hazards and gains linked with electronic payment instruments [7].

Cashless economy is certainly an intelligent move as it would trim down the cost of printing and managing notes. In financial year 2015, RBI spent Rs 27 billion on simply the activity of currency issuance and management [6]. Carrying huge amount of cash involves risk factor. Possibility of burglary increases when someone carries huge amount. In cashless economy since there is no cash to carry, there will be no possibility of theft. In the absence of cash, everybody will be transacting through electronic channels like debit card, credit card or net banking and so forth [1]. All transactions can be observed and if officials from Income Tax department notice something suspicious then they can trace the money transaction back to the individual [8]. Therefore, Income Tax department can keep watch over every transaction which will lead to increment in tax compliance. Everybody will begin paying tax to government and ultimately, it will augment the revenues of

government which can be utilized for the betterment of society [1].

Cashless society, through electronic record of transaction, makes it practically difficult to sustain black economies or underground markets that often prove detrimental to national economies. It makes the criminal transactions completely impossible [9]. People who hoard money and terrorists who require fund money to finance their terror will run out of business [8]. Circulation of fake currency notes can likewise be controlled and will help to lower corruption. This is the standout amongst the most imperative advantages of going cashless. However, apart from brighter sides of the cashless economy, there are some darker sides associated with it.

By declaring a ban on the old Rs 500 and Rs 1000 notes and by putting a limitation on withdrawals from banks and ATMs, Prime Minister Narendra Modi drifted the idea of a cashless society. In his forty minutes speech, P.M. Modi said that this was done to weed out black money and to promote a less cash economy [10]. As 86 percent currency in circulation was withdrawn, people resorted to means such as online payments and net banking [11]. But, is India exactly ready for cashless future? While online transactions will allow the government to keep an eye on payments and minimize the possession of black money in the economy, is it practicable to rely on online transactions rather than cash payments in India? [12]. There are number of challenges which obstruct India turning into a cashless society.

India has been a cash-dependent economy where 97-98 percent transactions are done in real money. The ratio of cash to GDP is one of the highest in the world. The number of currency notes in circulation is also higher than in other larger economies [13]. For a cashless economy to take off, the essential precondition that ought to exist is universal financial inclusion. Every individual must have access to banking facilities and should hold a bank account with debit/credit card and online banking facilities [9]. Therefore, one of the biggest challenges here is lack of enough bank accounts. Most people still do not have bank accounts and less than 5 percent transactions are done electronically. Over half of the population does not fall in any banking network. Despite everything they still have to depend upon hard cash for meeting their basic needs [8]. Most often there is just one account per family which also limits the number of cards people can have individually. Furthermore, while the new generation is stuck to their phones and gadgets, computer literacy among people in the over-50-age group is still low. Not many people are comfortable using computers or mobile phones. So, before promoting cashless society, endeavors should be taken to teach people on how to use computers and phones for transactions [12].

Numerous companies have come up with new and reasonable priced cell phones yet they are still not affordable for vast majority of the population in the country. Beside this, internet cost in India is very high. There is no Wi-Fi at public places and if people do not get their monthly data packs

recharged, there is no other way to do online transactions. Even for e-wallets, internet connectivity is required. The internet connectivity in semi-urban and rural areas is extremely poor and a lower literacy rates in these areas makes the situation worse. According to Pew Research Center Report only 22 percent people in India use the internet and only 17 percent own a smart phone. In order to persuade people to do cashless transactions, the cost of internet should be brought down and free Wi-Fi should also be provided at public places [12].

India still lacks when it comes to supporting a mobile society as it is extremely difficult to find a public charging point if the phone battery discharges. So what happen if you have cash in your e-wallet, but your phone is out of battery after travelling for a whole day? Is there any substitute that we can have? [12]. All these questions are required to be addressed before moving towards cashless economy.

Cashless economy is dreadful when talking about security. All transactions are done digitally and so there are risks of cyber attacks. Hackers are there who can hack confidential information like password, credit card number, etc. and leave the account with no money [8]. Additionally, most retailers don't accept cards for payments as they don't have required infrastructure for online payments limiting the ability to accept cards.

#### GROWTH IN INDIA'S DIGITAL JOURNEY

A year has passed and as indicated by RBI, 99 percent of the demonetized high value currency notes have returned to the banking system. But what about expanding the usage of digital payments? Have we, as a nation, diminished our reliance on cash? [10].

There is a prominent change in the digital transactions since a year ago. An evaluation of the trend in various segments demonstrates that the demonetization has surely caused a hike in digital transactions in the immediate months of demonetizations mainly December, 2016. The people ran towards alternative channels to do transactions in the wake of sudden cash crisis. However, the level of utilization of these channels has not remained at the pinnacle levels as found in the subsequent months of demonetization [13].

If we were to go by data with RBI, cash is yet a king. The former RBI Governor, Raghuram Rajan while launching his book, 'I do what I do' in Chennai in September, 2017 stated, "Post-demonetization electronic transaction volumes reverted back to earlier pre-demonetization trends. I didn't see any permanent upliftment arising as a result of the exercise" [10].

As indicated by RBI data, more people go for non-cash means when cash crisis was at crest, even for minor exchanges. Post this, only few has kept on using non-cash modes while others turned back to good old cash. But, such improvements has not demonstrated any dramatic rise as observed across channels such as RTGS, NEFT, IMPS, PPI, mobile wallet, etc., if one looks at the November to October period [13].

**Table: Digital Payment Transactions in Billion**

System	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	July-17	Aug-17	Sep-17	Oct-17
RTGS	101894	110980	100603	95267	154095	111744	113314	116201	110562	113828	127731	115808
CTS	5419	6812	6618	5994	8063	6991	6746	6401	6343	6224	6272	6340
NEFT	8808	11538	11355	10878	16295	12156	12411	12694	12012	12500	14182	13851

IMPS	325	432	491	482	565	562	586	597	605	651	718	750
NACH	607	627	541	654	899	972	761	811	843	824	714	985
Credit Card Usage at ATMs & POS	266	311	327	287	334	331	364	358	342	366	378	423
Debit Card Usage at ATMs & POS	NA	NA	NA	NA	NA	NA	2536	2632	2614	2707	2786	2939
PPIs	51	98	110	96	107	104	107	85	99	103	110	117
Mobile Banking	1366	1498	1383	1280	1731	1612	2134	1808	1396	795	848	971

Source: RBI Bulletin

## CONCLUSION

Cashless economy is an onerous task and requires a well-built system. No doubt, there is an escalation in India's digital journey and in all fairness the demonetization has done its part. Yet, the development has not been something that ought to be over-built up with regards to demonetization. It is up to the governing bodies of the nation to drive banks and telecom companies to improve the mobile and net banking services in order to provide a perfect solution to consumers as well as traders.

However, cashless economy is not just an endeavor by the governmental bodies but rather a revolution which has to be brought about to make people understand the advantages of going cashless and finally empower them to transact digitally in their everyday lives. From one's salary to their mobile recharges, all payments if done electronically will lead to a more transparent and accountable society.

A cashless society is an admirable move however, not without preparation. A large number of developing countries including India are lacking in basic infrastructure for online transactions like a smart phone, internet connectivity, cyber security, adequate banking facilities and so on. With the escalating cyber attacks and frauds, a stricter cyber law is the need of the hour.

India has always been driven by cash where electronic payments are seen confined to a little size of population and it will take more than an era to transform the habit from cash to non-cash transactions. A move without suitable arrangement would be more disastrous than favorable and its consequences will be interminable. A cashless society, for the time being, seems like a distant dream however a less-cash society can be welcomed. Our Prime Minister Narendra Modi has also acknowledged the fact in his monthly radio programme 'Mann Ki Bat' that making the move to cashless economy is challenging, and thus has asked the people to move to "less-cash" society (Dastur, 2016). Modi Government deserves credit for the endeavors it is making to create awareness and encouraging such a move, yet that progress will happen slowly. Therefore, a gradual move towards less-cash society as said by our Honorable Prime Minister is the right approach to move forward.

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