Cashless Economy: A Changing Paradigm

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Publication Info

Article history:
Received : 17.10.2017
Accepted : 21.11.2017
DOI: https://doi.org/10.29320/jnpgct.v12i01.10992

Key words:
Cashless economy, digital India

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ABSTRACT

Objective of paper is to discuss what cashless economy is and what their benefits/drawbacks are, scope in India and discussions regarding major countries of the world leading the pact towards a nearly cashless economy. The present study is theoretical and analytical in nature and is mainly based on secondary data in-depth interactions/discussions with various govt. agencies/representative agencies concerned with skill India, digital India, e-commerce.

“The above-mentioned lines are in reference to Digital India programme, which the PM proposed to transform India into a digitally empowered society and a knowledge economy. India’s digital payment system will be worth around $500 billion by 2020. There are various official and behavioural trends and multiple factors, which are fuelling this shift towards a cashless economy. Enhanced internet connectivity and high rate of penetration of smart phones in the Indian market has altogether shaped India’s payment landscape in favour of digital payment and of course, initiatives like DIGITAL INDIA will act as a catalyst for this change.

The demonetisation drive is not so much about curbing black money; perhaps the most significant government on its part working at various levels like opening bank accounts for the unbanked and adoption of direct benefit transfer is amongst the major one to reduce the usage of cash and increase transparency. For tax evaders, a shift away from cash will make it more difficult for them, which is a substantial benefit in a country that is fiscally constrained. To give a push to financial inclusion and to bring innovative banking solutions RBI has issued licenses to open new-age small finance banks and payment banks. If we talk about in terms of technology in India, things are definitely falling in place, for e.g. the recently launched Unified Payments Interface by National Payments Corporation of India makes digital transactions as simple as sending a text message. The cashless society is in full swing. There are certain start-ups who threatens to make ATM’s obsolete, Apple is making a big bet on mobile payments and American express’s CEO even declared that he doesn’t fear the potential demise of plastic. The trend today point towards a future with increasingly less cash floating around. There are certain countries for which this future is becoming close to reality, as there are number of nations who have almost entirely shifted towards non-physical payment. The nature of the paper is purely conceptual, informative, and based on secondary data. Objective of paper is to discuss what cashless economy is and what their benefits/drawbacks
are, scope in India and discussions regarding major countries of the world leading the pact towards a nearly cashless economy.

INTRODUCTION

“India is more reliant on cash than any other country on this earth”- This statement can be justified on the fact that demonetization nearly removed 86% of its currency from circulation without having an adequate supply of new notes. Hundreds and millions of people were left without the means to engage economically, to buy the things they wanted or needed and the businesses were left without a readily available mechanism to receive payments for their goods, to pay to their staffs or buy supplies.

India’s demonetization scheme is a unilateral initiative which was strategically planned by the government but to the surprise it also did something else- it pushed millions of new users onto the digital economic grid. It was more towards transitioning India towards cashless economy. Up until this campaign, India was an incredibly cash-centric economy. Cash accounted for almost 95% of all transactions, 90% of vendors did not have card readers or the means of accepting electronic payments, 85% of workers were paid in cash, and almost half of the population didn’t even have bank accounts. Even Uber in India accepted cash — the only country in the world where this option is available — and “Cash on Delivery” was the preferred choice of almost 70% of online shoppers. The move hoped that more people could be brought into the fold by using trackable and taxable digital financing vehicles like-debit/credit cards/e-wallets etc, and thereby reducing dependence on cash.

Cashless economy or cashless means the transactions for payment between the two individuals will occur through payment gateway or through the plastic money. The primary aim of cashless is to uncover the non-registered transactions. Indian Government has in order to promote the economy through non-cash transactions, introduced various mediums such as:

- Banking cards
- Mobile wallets
- Bank’s pre-paid cards
- Point of sale
- Internet banking
- Mobile Banking
- Micro ATM’s
- UPI

Diverting the economy towards these mediums and reducing dependence on cash will lead towards the betterment of the country and economy.

RESEARCH METHODOLOGY

The present study is theoretical and analytical in nature and is mainly based on secondary data In-depth interactions/discussions with various govt. agencies/representative agencies concerned with skill India, digital India, e-commerce. Literature and other information have been critically analysed in the study. Reports and publications of govt. of India obtained from various research papers published on the concerned study and through government official websites.

INDIA’s CURRENT SCENARIO IN DIGITAL PAYMENTS

Increased smartphone penetration and rollout of 3g and 4g services at extremely affordable prices have witnessed unprecedented growth of digital payment landscape in India. With new initiatives like UPI and BBPS, we are well positioned as an economy to make leap to digital payments. In addition, Aadhaar based authentication to deliver in markets (through OTP and incentives for digital payments such as tax breaks) will help spur the growth in digital payments. Cash transactions actually cost a lot of money- estimated to be over 1% of GDP. A study conducted by Tufts University in 2014, “The cost of cash in India” - cash operations cost RBI and commercial banks about 21000 crore annually. India has 4 times as much cash in circulation compared to other BRIC countries. Digital payments have benefits for both consumers and merchants and globally it has been recognized as examples in countries like Sweden and Kenya. Therefore, the time is ripe!

ON THE ROAD TO DIGITIZATION:

- India represents one of the largest market opportunities for digital payments
- With a population of 1.25 billion, India accounts for approximately 18% of the global population.
88% people approximately prefer cashless payment to cash payments, with 48% using digital payment for more than 75% of their transaction.

- More than 50% of India’s internet users will adopt digital payments by 2020, with the top 100 million users driving 70% of the digital payments Gross Merchandise Value (GMV).

- Ease of doing payments is one of the key factors for users to move towards digital payment.

**TOP TRENDS THAT WILL CHANGE THE DIGITAL PAYMENT LANDSCAPE IN INDIA**

- **India going digital:** With rising smartphone penetration and internet access, India is speedily evolving into a digital giant which is also reflected in growth of digital banking payments.

- **Promising regulatory surroundings:** With constantly changing Digital payments environment, the government and other regulators have recognized the same and kept pace with. The key regulatory steps that are currently assisting digital payments are:
  - KYC relaxation for small transactions
  - Exception from Two-factor authentication (2FA)

- Aadhaar making KYC easier
- Unified Payment Interface (UPI)
- Bharat Bill Payment System (BBPS)
- **Escalation of NextGen payment service providers:** India has witnessed drastic changes in digital payments in the last 3-4 years, and now it involves competitive digital payment landscape like telecom, banks, mobile wallets, e-commerce, and technology firms in the near future.

- **Enhanced customer experience:** Indian consumers are now used to a loftier experience owing to the popularity of e-commerce and are demanding a related experience in financial service providers as well. This includes unified access to bank account and payments, combined with rewards, fidelity, and offers.

**CHALLENGES FOR INDIA**

“FUTURE OF INDIAN ECONOMY IS CASHLESS” - Despite this fact, India remains a cash-led country in transactions. Preference is still for physical cash even in urban cities. Another major challenge is the digital wallets facing lack of acceptance across many use cases.

Converting cash into digital money is another major
challenge towards the adoption of digital wallets, as digital ways has to be made as simple as handling cash for both consumers and merchants. To make it more acceptable the digital modes needs to be incentivized initially and there should be common operating standards for everyone.

Therefore, every new thing we start there are challenges and the best solution is to make habit change. Consumers will change if they see the benefits are large, by making the wallets safer and swifter it is believed that consumers will move towards digital payments.

**THE WORLD’s MOST CASHLESS COUNTRIES**

The cashless society is in full swing. Current trend point towards a future with increasingly less cash floating around. Countries however, that future is close to becoming a reality as number of nations has shifted almost entirely towards non-physical payment. Based on the rate of cash free transactions and the percent of population that relies on a debit card here is a look at 10 countries leading the pack towards a nearly cashless economy.

1. **BELGIUM**
   - Population percentage with debit card: 86%
   - Non-cash payments share of total value of consumer payments: 93%
   
   Belgium has a law regarding the limit of cash payments which it has fixed upto 3000 euro and a step further it charges upto 2,25,000 euros in case of violation.

2. **FRANCE**
   - Population percentage with debit card: 69%
   - Non-cash payments share of total value of consumer payments: 92%

   France has the same law as of Belgium, as the country had disallowed any cash transaction above 3000 euro.

3. **CANADA**
   - Population percentage with debit card: 88%
   - Non-cash payments share of total value of consumer payments: 90%

   Starting in February 2013, Canada stopped minting and distributing pennies, supposedly saving the country $11 million a year.

4. **UNITED KINGDOM**
   - Population percentage with debit card: 88%
   - Non-cash payments share of total value of consumer payments: 89%

   In the famous double-decker buses in London, an “Oyster card” or a pre-paid ticket is must. From July 6, city buses stopped accepting cash as a valid payment; only 1% of commuters used cash in 2014, compared to 25% in 2000.

5. **SWEDEN**
   - Population percentage with debit card: 96%
   - Non-cash payments share of total value of consumer payments: 89%

   Bank robberies in Sweden plunged from 110 in 2008 to only 16 in 2011, the lowest level since the country started recording its numbers early in 1970’s, the reason being Swedish banks carrying less cash than ever before.

6. **AUSTRALIA**
   - Population percentage with debit card: 79%
   - Non-cash payments share of total value of consumer payments: 86%

   The country follows the tradition of “NO CASH NOVEMBER” launched by Australian billionaire Andrew “TWIGGY” Forrest in his home country.

7. **THE NETHERLANDS**
   - Population percentage with debit card: 98%
   - Non-cash payments share of total value of consumer payments: 85%

   A credit or debit card is a necessity, as the city’s parking meters no longer accept cash or coins. A number of retailers and restaurants also refuse to take cash; Dutch customers have taken such policies in stride, with 75% of them understanding and accepting no-cash rules.

8. **UNITED STATES**
   - Population percentage with debit card: 72%
   - Non-cash payments share of total value of consumer payments: 80%

   With Apple announcing its new “Wallet” service and introducing along with Microsoft and other tech companies the electronic watches with payment
capabilities, the shift to electronic payments has boiled over the past few years in USA.

9. **GERMANY**
- Population percentage with debit card: 88%
- Non-cash payments share of total value of consumer payments: 76%

Starting in 2012, merchants needed only an iPhone and an EMV chip reader (which is plugged into the phone) to accept credit or debit card payments, using technology from the Munich-based company Payworks.

10. **SOUTH KOREA**
- Population percentage with debit card: 58%
- Non-cash payments share of total value of consumer payments: 70%

South Korea might have been higher on the list, but societal and governmental initiatives that seek to reign in household debt by reducing usage of credit cards have pegged it down to number 10.

The payment landscape is truly changing (especially for a country like ours), consumers are shifting more towards online payments rather being dependent on cash. In fact it has been expected that non cash payments which constitutes 22% presently of all user payments will overtake cash transactions by 2023. The growth of digital payments service will increase transparency and will check on the presence of black money in the market and thereby increasing contribution to the country’s GDP.

“I dream of a Digital India where mobile and e-Banking ensures Financial Inclusion.

““In this digital age, we have an opportunity to transform lives of people in ways that was hard to imagine just a couple of decades ago.””

‘Narendra Modi’ The Prime Minister of India

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