

INDIA'S TRANSITION TO A CASHLESS ECONOMY

Dr. Sarita Rana

Associate Professor

Maharaja Surajmal Institute, Janakpuri, New Delhi

Email: saritarana@msijanakpuri.com

Muskaan, MSI

Assistant Professor

Maharaja Surajmal Institute, Janakpuri, New Delhi

ABSTRACT

Cash contribution to the Indian economy has been significant throughout the country's history in a variety of industries, including banking, e-commerce, consumer durables, biotechnology, automobiles, cement, and associated industries. But now is the moment to integrate the concept of "cashless" into all of these industries, which facilitates quicker, simpler, and more effective commerce. The efforts seek to boost the use of digital technology across a number of industries, including healthcare, education, and agriculture, as well as to foster an atmosphere that will support start-ups. The expansion of the digital ecosystem has been significantly aided by the rise in internet and smartphone use in India. Overall, the move towards a cashless economy in India promises enhanced financial inclusion, reduced corruption, and increased tax revenue. Government efforts and societal support indicate a promising trajectory towards a digitally empowered India.

Keywords: *Cashless, Digital payment, digital transformation, online payment, cashless transaction*

1. INTRODUCTION

The word "CASH," which has been ingrained in every Indian since ancient times, is still in demand. Every Indian client must be able to pay electronically in the modern world utilizing smartphones, computers, and other devices, and it is crucial to advance the nation's cashless economy through technology. A "cashless economy" is one in which digital platforms, such as online transactions, the use of plastic cards, Internet banking, etc., have taken the place of the traditional physical flow of currency. With this modification, the

money is no longer prohibited from use, even if it means reducing the use of physical currency by following the proper procedure.

Debit and credit cards, card-swipe or point of sale devices, debit and credit cards, digital wallets, and e-banking (mobile banking or banking through computers) are all included for better transparency, scalability, and accountability are benefits of digital or cashless transactions. Notably, digital payments account for 20% of all financial transactions in India, reflecting a growing acceptance of cashless methods. Government initiatives like Digital India and BHIM further bolster this transition.

This contributes to reducing corruption and the flow of illicit funds, which leads to greater economic growth. Due to technology incompatibility and inadequate information, cashless transactions are uncommon in nations like India. Despite the fact that these are severe problems, establishing a successful cashless economy requires the government or financial institutions to address them. In rural India, expanding internet access and smartphone usage are bridging the digital divide, facilitating e-commerce growth and fostering a favorable environment for startups. However, investment in digital infrastructure remains crucial for realizing the rural market's full potential.

The government's push for digitization, rising internet and smartphone penetration, and the development of e-commerce are just a few of the factors that have contributed to the expansion of India's rural digital ecosystem. Through a number of programs like Digital India, Make in India, and Startup India, the Indian government has been actively pushing the usage of digital technologies.

The 'Unified Payments Interface' (UPI), which enables real-time interbank transactions, and the 'Bharat Interface for Money' (BHIM) app, which streamlines the process of conducting digital transactions, are two of the important efforts made by the government.

1.1 Objective of the Study

The primary objective of this paper is to examine the 'Cashless Economy' of India, its growth, development and challenges. Also, to study the positive and negative effects with respect to functioning of 'Cashless Economy'.

1.2 Research Methodology

Sample Design: Random Sampling	Sample Size: 90
Data Source: Primary Data Secondary Data	Data Collection Method: Survey Data Collection Tool: Questionnaire

2. LITERATURE REVIEW

Dinesh et al. (2021) highlights the Indian government's Digital India program, emphasizing its goal to transform India into a "Faceless, Paperless, Cashless" society through various digital payment methods. Jain (2018) discusses the effects of the 2016 demonetization, aiming to curb inflation, combat corruption, and promote a cashless economy, while assessing both positive and negative impacts based on secondary data. Hock-han Tee and Hway-boon Ong (2016) examine the adoption of e-payments in five EU countries, finding that while short-term competition exists among payment providers, significant economic growth effects are observed in the long run.

Khurana (2015) explores the benefits and challenges India might face in achieving a cashless society, acknowledging the progress made and the need for further efforts. Roozbahani (2015) investigates customer satisfaction in the context of e-payment tools at Pasargad Bank, finding a positive correlation between e-payment services and customer satisfaction, which offers competitive advantages. Kumari and Khanna (2017) study behavioral changes leading to economic growth in India, noting the benefits and opportunities that drive adoption of cashless payments.

Kaul and Mathur (2017) emphasize the importance of financial literacy, identifying obstacles and strategies for effective implementation of digitalization programs, which contribute to economic growth, job creation, and transparency. Khan (2019) highlights the transformative impact of ICT on cost efficiency and socio-economic benefits across various sectors.

Das and Agarwal (2010) examine the cashless payment system in India, suggesting it reduces transaction tracking and currency management costs, encourages financial

inclusion, and integrates the parallel economy into the mainstream. Duggeri Ashley assesses economic health through GDP growth and quality of life indicators, linking economic development to technological advancements and improved living standards. Maiti and Kayal (2017) focus on the impact of digitization on India's services and MSME sectors, noting significant performance improvements and potential for future growth. Sheokand and Gupta (2017) discuss the Digital India campaign, identifying pillars and challenges, and suggest that a digitally empowered population can drive economic transformation through cost savings, increased output, and enhanced productivity.

The literature review explores various dimensions of digitalization and cashless transactions, highlighting their significance in India and globally. Additionally, the review discusses the impact of demonetization in India, emphasizing governmental efforts to combat corruption and foster a cashless economy. Studies also examine the adoption of e-payments in EU countries, suggesting long-term positive effects on economic growth.

2.1 Overview of the current cashless infrastructure in rural and urban India

Rural Areas:

- Rural areas in India have witnessed significant progress in terms of the adoption of cashless infrastructure, although challenges persist.
- Financial institutions, along with government initiatives, have worked towards expanding banking services in rural areas through the establishment of new bank branches, business correspondent models, and the promotion of self-help groups (SHGs) and microfinance institutions.
- Various digital payment solutions have been introduced to cater to the unique needs of rural areas, including mobile banking services, Unified Payments Interface (UPI), and Aadhaar-enabled payment systems.
- The government-led initiative, Jan Dhan Yojana, has played a crucial role in providing access to banking services for rural populations, facilitating cashless transactions through bank accounts, and promoting financial inclusion.

Urban Areas:

- Urban areas in India have a more developed cashless infrastructure compared to rural areas.
- Urban regions typically have a higher density of bank branches, ATMs, and point-of-sale (POS) terminals, making it easier for residents to access banking services and conduct cashless transactions.
- Mobile wallets and digital payment apps have gained widespread adoption in urban areas, enabling people to make payments through smartphones and other digital devices.
- E-commerce platforms, online marketplaces, and digital payment gateways are well-established in urban areas, facilitating cashless transactions for retail, services, and other sectors.

2.2 Benefits of cashless economy in India

- **Financial Inclusion:** Cashless transactions can help bring the unbanked and underbanked population in rural areas into the formal financial system. It enables access to banking services, credit, and insurance, leading to enhanced financial inclusion and economic empowerment.
- **Increased Transparency:** Digital payments leave a digital trail, promoting transparency and reducing the scope for corruption and informal transactions. This can contribute to better governance and accountability in rural areas.
- **Access to Government Benefits:** Cashless systems can facilitate the efficient delivery of government welfare programs and subsidies to rural residents. Direct benefit transfers to bank accounts ensure that funds reach the intended beneficiaries directly, eliminating intermediaries and leakages.

2.3 Challenges of Cashless Economy in India

- **Digital Infrastructure:** Rural areas often lack reliable internet connectivity, electricity, and technological infrastructure required for seamless digital transactions. Limited access to smartphones, point-of-sale (POS) devices, and ATMs can hinder the adoption of cashless methods.

- **Digital Literacy and Awareness:** Many rural residents may have limited familiarity with digital technology and financial literacy. Lack of awareness about digital payment methods, security measures, and the benefits of going cashless can pose challenges to adoption and usage.
- **Trust and Security Concerns:** Rural populations may have concerns about the security and privacy of digital transactions. Fear of cyber fraud and lack of confidence in the security measures of digital payment platforms can deter adoption.
- **Dependency on Cash:** Cash is deeply ingrained in economies and serves as a medium of exchange in daily transactions. A sudden shift to a cashless economy may disrupt existing practices and create resistance among rural residents who are accustomed to cash transactions.

3. Data Analysis

Occupation
90 responses

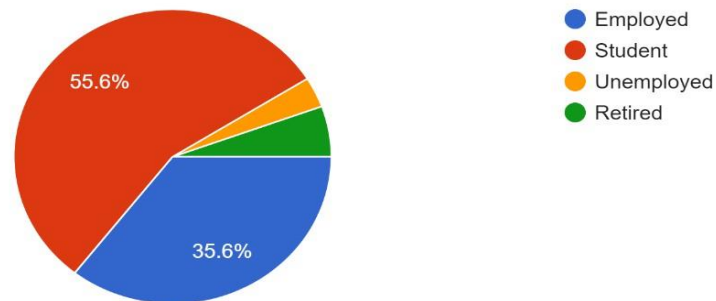


Fig. 1 Occupation

The list delineates a diverse spectrum of occupations, with "Student" being the predominant label. Interspersed throughout are instances of employment, unemployment, and retirement, suggesting a mix of individuals in varying stages of their professional lives. While it offers insight into the distribution of occupations within a certain context, it lacks specifics regarding demographics or reasons behind occupational statuses, leaving room for interpretation.

How familiar are you with the concept of a cashless economy?

90 responses

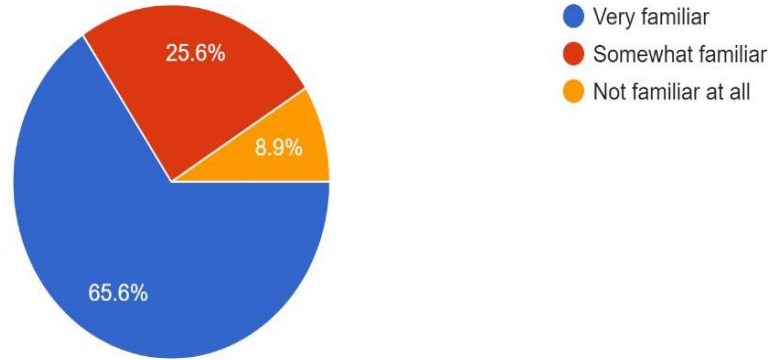


Fig. 2 Concept of Cashless Economy

Based on the collected data, it's apparent that familiarity with the concept of a cashless economy is quite high, with a significant majority of respondents (65.6%) indicating a very familiar understanding. This suggests a widespread comprehension of cashless economic systems among the participants. However, a smaller portion of respondents (34.4%) either expressed a lack of familiarity or were unsure about the concept.

What do you perceive as the main benefits of a cashless economy?

90 responses

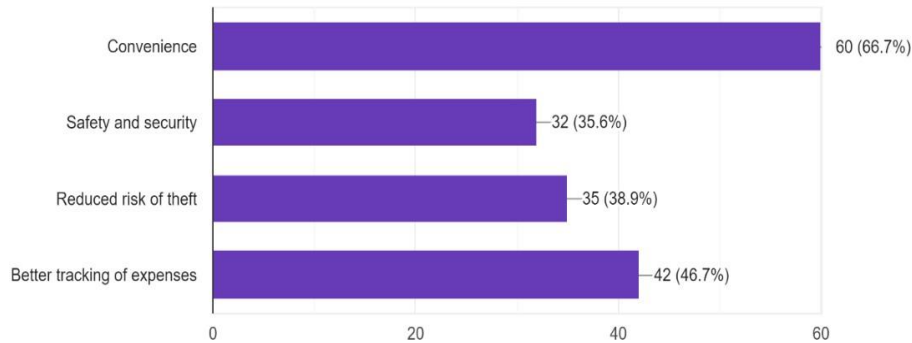


Fig. 3 Benefits of Cashless Economy

The main benefits perceived for a cashless economy include convenience (66.7%), better tracking of expenses (46.7%), safety and security (35.6%), and reduced risk of theft (38.9%). The overwhelming agreement on convenience and expense tracking underscores their importance, likely indicating a desire for streamlined financial management. Overall, these perceptions highlight the potential advantages driving the adoption and acceptance of cashless economies.

What do you perceive as the main challenges of transitioning to a cashless economy?
90 responses

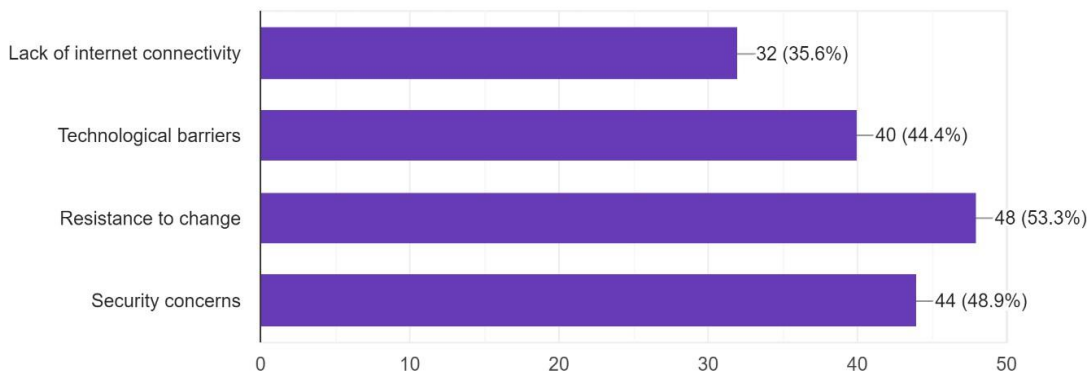


Fig. 4 Challenges of Cashless Economy

The main challenges perceived in transitioning to a cashless economy include: lack of internet connectivity (35.6%), technological barriers (44.4%), resistance to change (53.3%), and security concerns (48.9%). The data highlights a multifaceted landscape of obstacles hindering the adoption of cashless systems. The prevalence of resistance to change suggests a significant psychological barrier to overcome, potentially rooted in familiarity with traditional cash transactions.

How often do you use cashless transactions (e.g., debit/credit cards, mobile wallets, UPI, etc.)?

90 responses

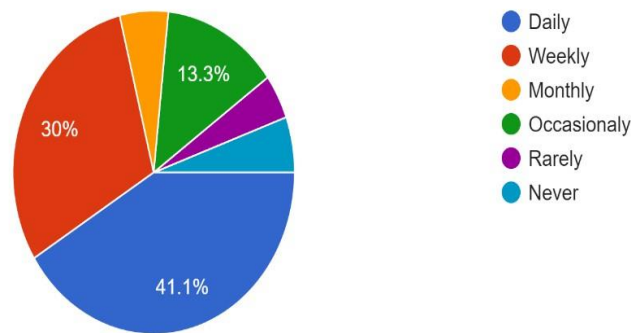


Fig. 5 Cashless Transaction Frequency

A substantial proportion (41.1%) reported utilizing cashless methods on a daily basis, indicating a habitual reliance on digital payment solutions in their daily transactions. Additionally, a significant portion of respondents (30%) reported engaging in cashless transactions on a weekly basis. Furthermore, (13.3 %) indicated occasional usage of cashless transactions, implying that while they may not rely on digital payments as frequently, they still incorporate them into their lives.

Which cashless payment methods do you use most frequently? (Select all that apply)

90 responses

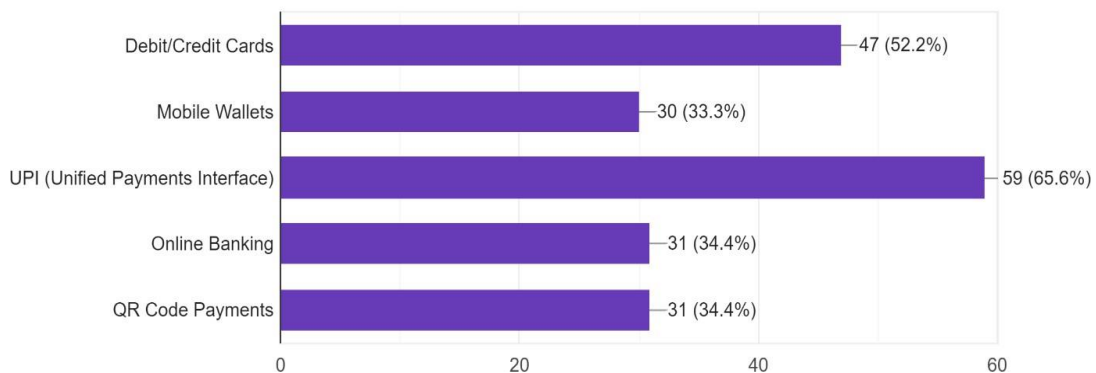


Fig. 6 Cashless Payment Method

The most commonly selected options include Debit/Credit Cards (52.2%), UPI (Unified Payments Interface) (65.6%), and Mobile Wallets (33.3%). These findings reflect the popularity and widespread adoption of these payment methods among respondents. Additionally, Online Banking (34.4%) emerges as a notable choice, indicating the significance of digital banking services in facilitating cashless transactions.

Which factor influences your decision to use cashless transactions over cash?

90 responses

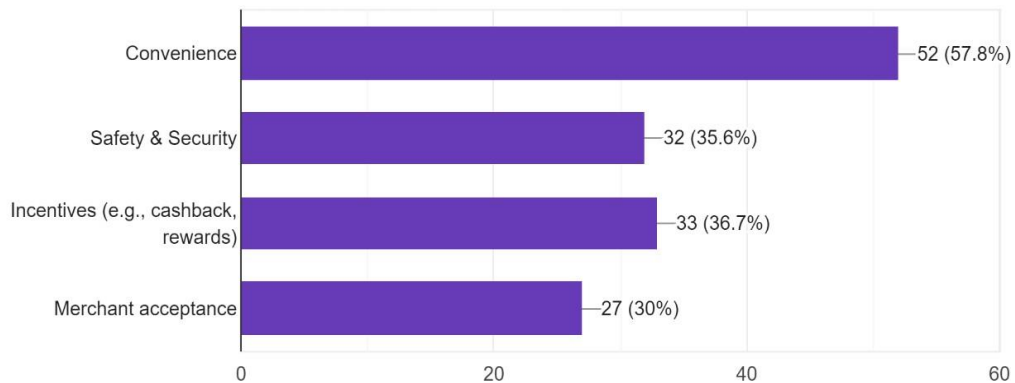


Fig. 7 Factors for Decision

The primary factors influencing respondents' decisions to use cashless transactions over cash include convenience (57.8%), safety & security (35.6%), incentives such as cashback or rewards (36.7%), and merchant acceptance (30%). The overwhelming majority citing convenience as a key factor reflects the ease and efficiency associated with cashless transactions, aligning with the modern preference for streamlined payment methods.

Do you think a cashless economy will have a largely positive or negative impact on India's economic growth and development?

90 responses

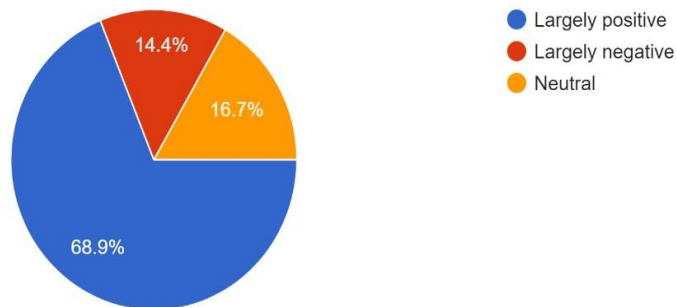


Fig. 8 Impact of Cashless Economy

A significant number of respondents (68.9%) expressed optimism about the potential benefits of transitioning to a cashless economy, citing positive implications. Conversely, a smaller percentage of respondents (16.7%) indicated a neutral stance, suggesting a degree of uncertainty or reserved judgment regarding the overall impact of a cashless economy. Interestingly, a minority of respondents (14.4%) expressed concerns or perceived negative

implications.

What do you see as the main challenges hindering the adoption of cashless transactions in India?
(Select all that apply)

90 responses

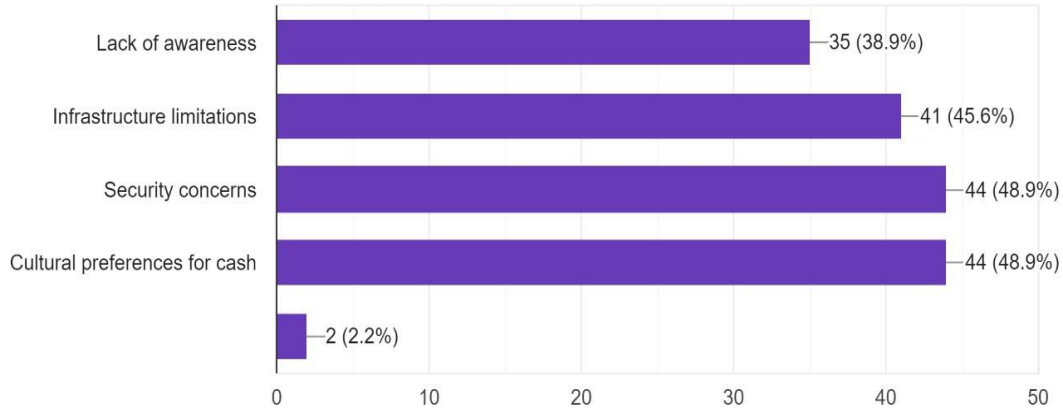


Fig. 9 Challenges for Cashless Economy

The main challenges hindering the adoption of cashless transactions in India, as identified by respondents, include lack of awareness (38.9%), infrastructure limitations (45.6%), security concerns (48.9%), and cultural preferences for cash (48.9%). These findings highlight a multifaceted set of obstacles that contribute to the slower uptake of cashless transactions in the country.

How do you think these challenges can be overcome to promote digitalization in India?

90 responses

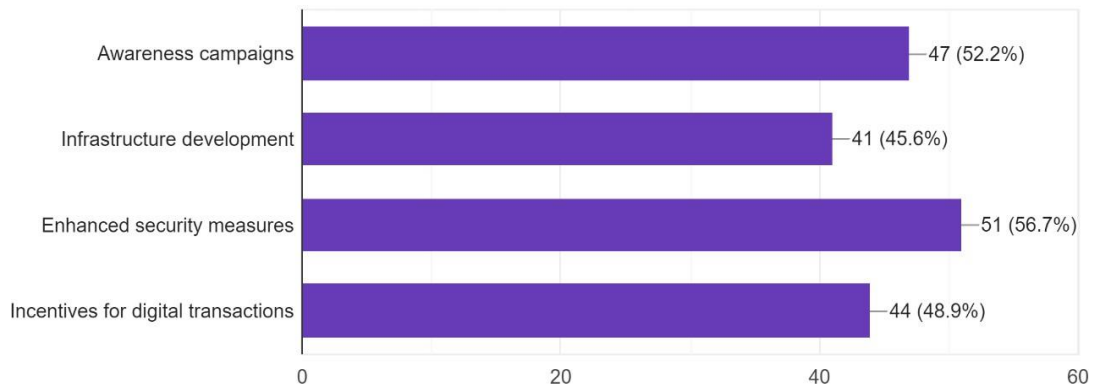


Fig. 10 Overcome Challenges

Approximately (52.2%) of respondents cited lack of awareness as a key obstacle, highlighting the need for extensive awareness campaigns. Infrastructure limitations were identified by (45.6%) of respondents, underscoring the importance of investing in digital infrastructure, particularly in rural areas. Security concerns were mentioned by (56.7%) of

respondents, emphasizing the need for enhanced security measures, including encryption technologies and fraud detection systems.

Do you believe that India will eventually become predominantly cashless?

90 responses

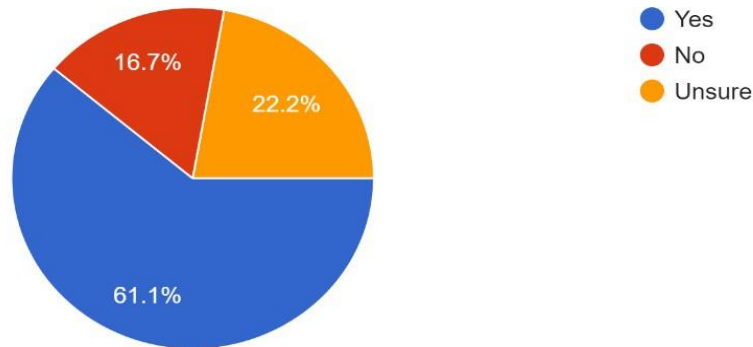


Fig. 11 Future of Cashless Economy

Based on the responses provided, there seems to be a prevailing optimism towards the idea of India eventually transitioning to a predominantly cashless economy. Approximately (61.1%) of respondents expressed belief in this possibility, indicating confidence in India's ability to embrace digitalization and reduce reliance on cash transactions. However, there remains a degree of uncertainty, with around (22.2%) of respondents unsure about the likelihood of India becoming predominantly cashless. A smaller percentage, roughly (16.7%), expressed skepticism or uncertainty regarding this outcome.

4. CONCLUSION

4.1 Summary of findings from the analysis:

The analysis of survey data provides valuable insights into the perceptions and behaviors related to the cashless economy in India. Findings suggest a widespread familiarity with cashless transactions, with the majority of respondents acknowledging its benefits, particularly convenience and better expense tracking. However, challenges such as infrastructure limitations and cultural preferences for cash hinder widespread adoption. Despite these challenges, there is optimism regarding the positive impact of a cashless economy on India's economic growth and development.\

4.2 Evaluation of the overall impact of the cashless economy on rural and urban India:

The evaluation reveals a nuanced picture of the cashless economy's impact, with disparities between rural and urban areas. While urban regions have made significant strides in cashless infrastructure and adoption, rural areas face unique challenges such as limited internet connectivity and digital literacy. Nonetheless, the cashless economy has positively influenced financial inclusion and employment generation in both rural and urban areas. Addressing the digital divide and security concerns is crucial to ensure equitable benefits for all.

4.3 Identification of key challenges and opportunities:

Key challenges identified include limited internet connectivity, low digital literacy, and concerns about data privacy and security. However, there are opportunities to leverage the cashless economy to enhance financial inclusion and promote entrepreneurship, particularly in rural areas. Integration of digital literacy programs, investment in infrastructure, and collaboration between stakeholders can address these challenges and unlock the potential of the cashless economy. In conclusion, the survey analysis underscores the potential of the cashless economy to transform financial landscapes in India, albeit with persistent challenges. While familiarity and optimism are prevalent, addressing infrastructure limitations, enhancing digital literacy, and bolstering security measures are paramount.

4.4 Recommendations

India needs to come up with the new policies of digital 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.

- 1.** Implementing comprehensive government-led training programs is imperative to enhance digital literacy among rural populations, thereby encouraging greater participation in the digital economy.
- 2.** Ensuring that digital payment transactions are free from transaction costs can instill confidence among the public and incentivize greater adoption of digital financial services.
- 3.** Given the prevalent fear of fraud among rural communities, banks must prioritize awareness campaigns to educate customers on safeguarding their banking details, PIN and OTPs, thus mitigating the risk of financial fraud.

4. Active participation of the public is crucial for the success of government initiatives in promoting the digital economy. Schools can play a pivotal role in raising awareness and disseminating knowledge about these initiatives within their communities.

REFERENCES

1. Parikshit. (2017). Journey Towards Cashless India (Black Money, Demonetization & Cashless Economy).
2. Roy, S. (2017). Cashless Economy in India- Present Scenario, Potential, Prospect and Challenges.
3. Prasad, E. (2021). The Future of Money: How the Digital Revolution Is Transforming Currencies and Finance.
4. Fernandes, D. (Ed.). SJCC Management Research Review.
5. (2019). IOSR Journal of Business and Management (IOSR-JBM).
6. (2016). Journal of Internet Banking and Commerce.
7. <https://www.legalserviceindia.com/legal/article-7759-a-study-of-economic-implications-of-cashless-economy-in-india.html>
8. <https://www.legalserviceindia.com/legal/article-7759-a-study-of-economic-implications-of-cashless-economy-in-india.html>
9. <https://www.gjimt.ac.in/wp-content/uploads/2018/03/Sharad-Malhotra-Impact-of-Cashless-Society-for-the-Economic-Growth-in-India.pdf>
10. <https://www.sgndkc.org/sk/documents/uploadedfiles/file27092021030637.pdf>