

## **EFFECTS OF THE CASHLESS SOCIETY ON INDIA'S ECONOMIC DEVELOPMENT**

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### **ABSTRACT**

*Cashless economy is an economy where maximum transactions are done without using the physical cash or the means of hard cash. It is the economy where economic transactions are done with the facilities like credit card, debit cards and on-line transactions by means of fund transfer and using e-wallets. The new policy of demonetization and the stress of the government on cashless transaction is a clear message towards the good economic growth in the country. The demonetization policy has increased the use of online banking services, cheque and e-wallets. According to the report, SMBs may face challenges in a cashless economy as well as alternate alternatives. Utilizing secondary information and basic statistical techniques, the findings of this investigation were examined. It has not only reduced the threat of theft and loss of money on the one side but also facilitated the risk-free transactions. The present paper aims to study the impact of demonetization and cashless society in the country. The research indicates the overall development of the market and society. It also studies the challenges faced by the government to establish the cashless economy.*

**Keywords:** *electronic payments, and the cashless economy*

### **Introduction**

Cashless economy is an economy where maximum transactions are done without using the physical cash or the means of hard cash. It is the economy where economic transactions are done with the facilities like credit card, debit cards and on line transactions by means of fund transfer and using e-wallets. We now need to conduct cashless transactions as a necessary part of our everyday financial operations. They make it possible for businesses, individuals, and organizations to transfer money internationally. Today, there is a growing body of knowledge about cashless transactions and how modern consumers behave toward them. The main obstacles to cashless transactions in India are discussed in this chapter along with the factors that affect them. Cashless transactions are any sort of financial transaction involving the transfer of monies from a buyer to a vendor of goods or services that is carried out via the internet, or more broadly over an electronic network. To put it another way, a cashless transaction is a payment technique that is carried out using multiple digital or cashless means of transaction rather than actual cash. When a transaction is conducted electronically, such as through an e-wallet, debit or credit card, IMPS (immediate payment service), NEFT (national electronic funds transfer), RTGS (real time gross settlement), a check or demand draught, AEPS (Aadhaar Enabled Payment System), or USSD, there is no flow of cash within the economy (Unstructured Supplementary Service Data). The cashless economy has become increasingly important to the Indian economy in recent months. A cashless society is both desirable and possible thanks to the advancements in technology in our culture.

A cashless economy is one in which digital or credit cards are used for all transactions. Physical cash is not used very often. In India, there are much too many cash transactions. So far economic transactions have been held through direct cash payment. Starting from dining at a nearby tea shop to purchase of many lacs worth houses and cars mostly cash is used. The electronic money transfer is very little out of the total economic transition.

### **Concept of Cashless Economy**

The digital payment options are not just limited to business transactions; they also include the ability to pay for things like rent, school fees, hotel reservations, and utility bills. The most common payment methods used worldwide include mobile banking, internet banking, telephone banking, electronic cards, implants, point of sale (POS) terminals, ATMs, and other cashless payment systems. Sweden is likely to be the first country to submit its citizens to a cashless society in an era when many countries are leaning toward inhabitants to a fascinating and dangerous economic experiment. Sweden was one of the first countries to embark on the cashless economy adventure. Take the bus, buy some chewing gum or a magazine; Everywhere now accepts electronic payments. Norway, Denmark, Belgium, France, the United Kingdom, and other nations have queued up for a cashless society.

### **Cashless Economy – Different Cashless Payment and Modes**

#### **1. Smartphone wallet:**

Basically, this a mobile virtual wallet. You can store money on your mobile device to make payments offline or online. Through mobile apps that must be downloaded on the phone, several service providers offer these wallets. These wallets allow you to send money online using a credit card, debit card, or net banking. As a result, You don't require to enter your card details every time you use the wallet to pay a bill or make an online purchase. These can be used for shopping and paying bills online.

#### **2. Plastic money:**

Prepaid, debit, and credit cards are all referred to as "plastic money." The latter might be issued in physical or digital form by banks or non-banks. You can buy these online, reload them with Net Banking, use them at point of sale (PoS) machines, and even give them as gifts. The three main applications of cards are withdrawing cash from an ATM, making purchases online, and swiping at point-of-sale (PoS) terminals at merchant facilities like stores, restaurants, and petrol stations.

#### **3. Net banking:**

Net banking is simply a technique to send money electronically between bank accounts, credit cards, or other parties without carrying around a wallet. It is possible to utilise a computer or a mobile device. You can access your bank account online by using the low-cost

real-time gross settlement (RTGS), rapid payment service (IMPS), or national electronic funds transfer (NEFT) services.

### **India's Move Towards Cashless Economy**

A decision to transition to a cashless economy was not made overnight. In order to promote the transition to a cashless economy and digital payments, the administration implemented a wide range of actions in February 2016. In his Man Ki Baat speech in May 2016, Prime Minister Narendra Modi exhorted citizens using cashless transactions. He was emphatic how the use of smartphones and other technology gadgets supports digital culture. The government launched an important financial inclusion initiative to do this, which included opening Jan Dhan accounts, giving Aadhaar legal standing, implementing direct benefits transfer, enacting GST, introducing using RuPay cards and starting a voluntary disclosure scheme for missing money. The switch to a cashless economy was accelerated by the demonetisation of the 500 and 1000 rupee notes on November 8, 2016. Demonetization-related economic downturn has given rise to numerous new economy myths. More people would be adversely impacted by this effect if they earned and spent the majority of their revenue was in cash. To make the switch based on cash to a cashless economy, active steps would be required. The adoption of ICTs for payment and settlement, along with enduring problems in the financial system, have led to a cashless economy in India. Only 27% of PDS spending, according to the Planning Commission's estimate for 2009, went to the targeted low-income population. Clean and open corporate practises are not just increasing tax revenue but also reducing criminal activities including the shadow economy, money laundering, and commission in social systems. Financial Control will only have a small financial impact. The RBI spent Rs. 27 billion on managing and issuing currency in 2015. The cashless economic strategy has three long-term objectives: first, encourage a voluntary shift from informal to formal economic activity; second, advance the development and modernization of the payment system with transparency so that all illicit economic activity is eliminated can be eliminated; and third, to reduce the use of cash activity is stopped; and third, financial inclusion. Although this last goal is still a difficult one to achieve, it may be achieved in the midst of discussions about Universal Basic Income (UBI).

### **LITERATURE REVIEW**

In a cashless economy, goods When services are exchanged via electronic means as opposed to through the use of actual money. The process of integrating new technology into already-in place business processes is known as ICT integration. According to the Basel Committee, transferring e-currency is challenging due to the complexity of the underlying technology and economics (1998). Payments without a bank account can be sent using e-money to anyone other than the issuer., acc. to the *European Central Bank* in 1998.

Computerized payments would make it simpler to locate missing monies, according to Jain 2006[1]. The Indian economy, banks, as well as the general public profit from this.

Throughout his remarks, he also emphasized the significance of electronic payments and communication networks.

In addition to being simple to use and secure, electronic payments offer a number of other benefits, according to Ajay (2014)[2]. As a result of electronic payments, more money should be accessible for economic activities. The Indian government can't afford the expense of taking cash as payment.

In his article "Cashless Payment Service in India- A Roadmap," Das (2010)[3] asserts. For the country to develop, a cashless payment system must be in place. As a result, it will be less expensive to manage currencies, maintain track of transactions, uncover tax fraud and evasion, and integrate the parallel economy into the larger one.

There are many advantages to using a credit card, for both businesses and individuals, according to Vincent's essay "Credit cards: Modern Payment System" from 2005[4]. In a "cashless economy," using credit or debit cards is favoured (2013).

Empirical research on the effects of the Demonetization policy on rising spending and the uptake of cashless transaction methods has been done by S. Agarwal et al. in 2019[5]. They discovered that 86% of cash payments fell during the demonetization drive as consumers shifted to cashless transactions, and the level of expenditures at this time remained high even after the cash supply was restored.

According to descriptive research by Dhanya, B.K., (2019)[6], consumers use their e-wallets more often than traditional wallets because currency isn't used in cashless transactions, which causes people to spend more money. According to the study, consumers' emotional states are influenced by their transactional experiences, and if these emotional states grow in number, customers will outweigh all the disadvantages of cashless transactions, leading to an increase in adoption.

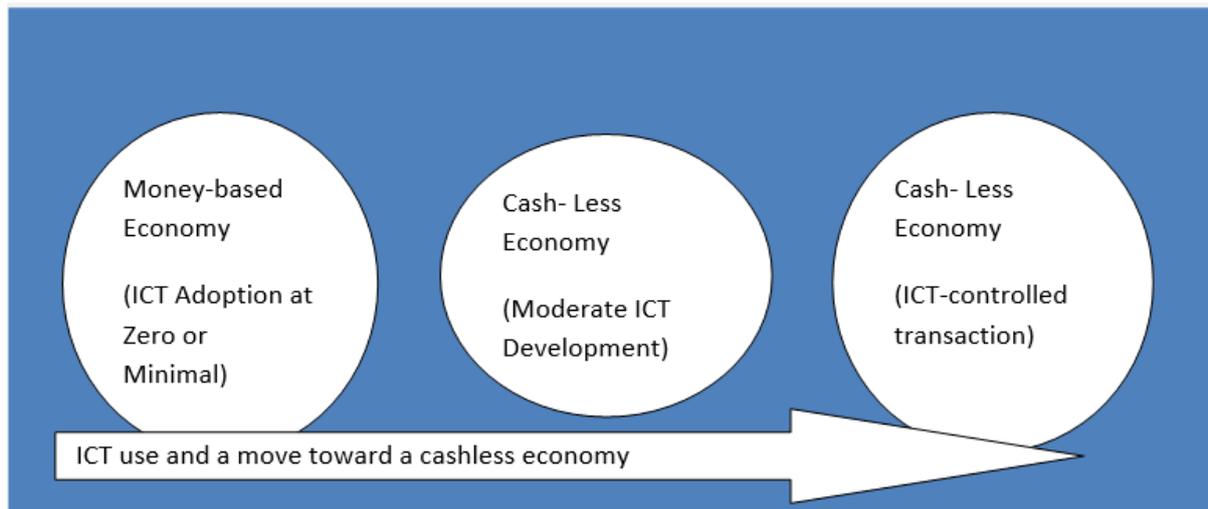
Credit cards have been referred to as a common form of cashless transaction by Chakravorti, S. (1997)[7]. Although it is a new method of payment that people are still adjusting to, utilisation is limited because of psychological difficulties. He has come to the conclusion that the majority of customers only use credit cards, where they pay their accounts in full by the deadline. Although, some customers are hesitant and avoid using credit cards because of their intense fear of not being able to pay their balance in full.

### **Cashless Economy Theory**

According to Adewale, the definition of a digital payment market is "a gradual or abrupt movement in an economic growth payment service from the use of physical cash to the system." Billboards, company advertisements, local and international trade, as well as interpersonal relationships and activities, are all included under the umbrella term "public and

private" (2012). For instance, under a cashless payment system, users can use their electronic devices to trade money with others and buy and sell goods and services. Both parties to a transaction must have access to these services. Use it to settle utility bills, tuition, hotel reservations, and rent obligations.

Modern cashless payment methods include electronic cards (POS), ATMs, implanted devices (AEDs), mobile banking, internet banking, telephone banking, and many others. The globe may not even have tried a cashless society before Sweden does. In Sweden, the idea of a cashless society has been under consideration for some time. All businesses that accept digital payments have the debit and credit card alternatives. Belgium, France, and the United Kingdom are among the nations taking a cashless society into account in addition to Norway and the United States. It will take time for the cash-based economy to transition to a cashless one. We are currently in this situation as a result of developments in information and communication technology. The transition from a cash-based to cashless economies is seen in Figure 1.



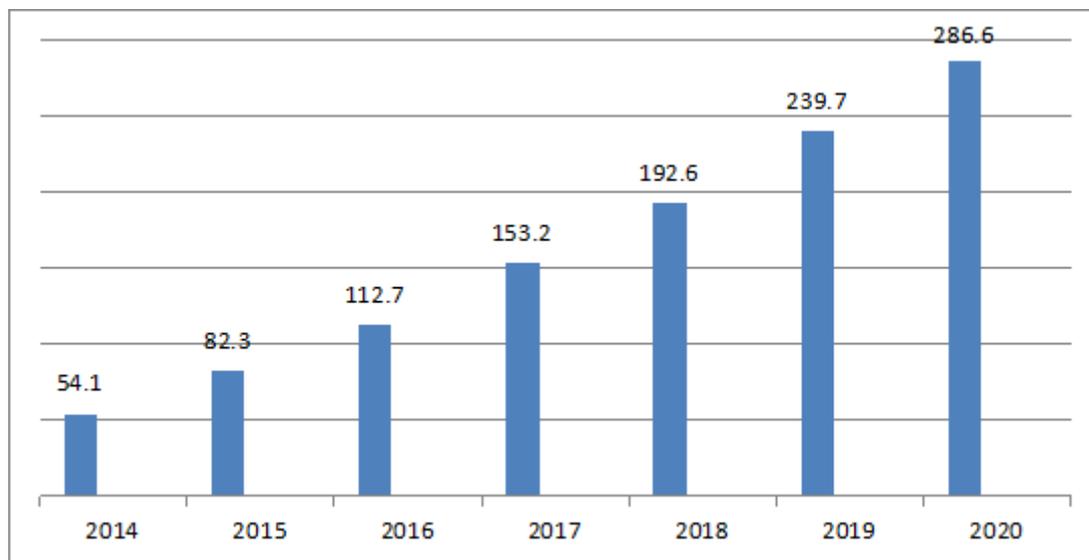
**Fig. 1: Cashless Economy Evolution**

Today, there are several ways to make payments without using cash, including mobile banking, internet banking, telephone banking, electronic cards, POS machines, ATMs, and more. Anywhere that allows digital payments, you can use your debit or credit card to make a transaction. Other countries, including Norway and the US, have started to investigate the idea of a cashless society. These nations include the United Kingdom, France, Belgium, and Denmark. A cashless economy does not suddenly transition from a cash-based one. This situation currently exists as a result of developments in information and communication technologies (ICT). Figure 1 demonstrates the progressive transition of cash-based nations to cashless economies.

### **Growth of cashless transactions in India**

In the past seven years, India has seen a phenomenal increase in cashless transactions. According to Figure 1.1, the volume share of cashless transactions has grown significantly

over time. Demonetization, government measures, hygienic preferences as a result of the COVID-19 pandemic, and changing consumer habits in India have all contributed to the trend in the volume of cashless transactions in the country.



**Figure 1.1 Volume of cashless transactions in India (in millions) Source: Reserve Bank of India ([www.rbi.org.in](http://www.rbi.org.in))**

In the seven years from 2014 to 2020, the growth rate of cashless transactions in India climbed by 61.39 percent. [8] It is clear that consumers in India are quickly moving toward cashless transactions for a variety of reasons, demonstrating a positive paradigm shift in their behaviour. However, it is unfair to compare cashless transactions with those in other developed or developing nations because each has a different population and gross domestic product.

### **Moving Forward: Government Initiatives**

The government implemented several initiatives to establish a cashless economy and to advance the culture of digital payments. It introduced on December 15, 2016, two programs—Lucky Grahak Yojana and Digi-Dhan Vyapar Yojana—were launched to give cash prizes to clients and merchants who accept digital payments for personal use. Since cash is still the primary means of payment for most personal consumption expenditures in India, there is a sizable informal sector that makes it difficult for the government to levy and increase taxes. From 3.85 lakh on November 8 to 16 lakh on December 7, the number of RuPay card transactions per day across the country increased. In a similar vein, the number of e-wallet transactions increased from 17 lakh to 63 lakh, the number of USSD transactions increased from 97 to 1263, and the number of PoS (point of sale) transactions increased from 50.2 lakh to 98.1 lakh. One of the ten major themes of the Budget-2017 is the digital economy, which aims to speed up government operations and increase openness and accountability. The government a decision was made to build one million new post terminals

deployed by March 31, 2017, as part of its strategy to develop the digital payments ecosystem and speed the transition to cashless transactions. 2,73,919 camps were organised by the States' Administration and the Ministry of Labor & Employment to open 24,54 lakh bank accounts for unorganised employees.

**Small and medium-sized businesses' Growth and Survival in a Cashless Economy**

Small businesses need to understand how cashless regulations will impact them before implementing a cashless economy. What resources are crucial for thriving in this novel environment? Anyone is allowed to handle cash because it is a legal tender. Small and medium-sized businesses are significantly impacted by the demonetisation. Since A bank account is usually connected to electronic money, many individuals and small enterprises are left without one. It's possible that they lack technological proficiency as well. It's helpful to understand how these folks handle their finances and what changes are necessary to maintain their way of life.

Even so, not everything has always gone according to plan. Demonetization has caused the economy to temporarily decline. Despite having a big impact on sectors like textiles (construction and building materials), automotive logistics, and consumer durables, new economic waves had little to no effect on IT or security services (consumer electronics). The inability of the unorganised sector to handle digital money temporarily hindered demand. Look no further than Figure 2 to see how demonization has impacted many businesses.



**Fig. 2: Demonetization's Impact on Various Industries**

CRISIL, Press Release, Mumbai, January 5, 2017

**Method:**

To find out the effects of the effects of the cashless transactions and its impact on Indian economy primary and secondary methods are used. Different aspects of the issue was find out with the help of interviews conducted primarily on the people using cashless options for sending and receiving money.

**Findings:** There are many benefits that are related directly or indirectly to the India’s economy with the use of cashless transactions in the market. The direct benefits include

**1. Cost of printing money:**

Printing money is the direct cost that affects the bank (Reserve Bank Of India). In the cash system of economy where maximum people will work on the cash transaction, government has to produce more and more cash notes. Printing notes it is a costly affair. Data from a Right to Information answer by the RBI in 2012 shows that it costs Rs. 2.50 to print each Rs. 500 denomination note, and Rs. 3.17 to print a Rs. 1,000 note. From April 1994 to June 2016, currency has shown a yearly growth rate of 17%, while the share of bank currency has remained around 5%. It was estimated that, for 2009–2010, RBI incurred an annual cost of INR 2800 Crores for printing currency notes (Das and Agarwal 2010). As per the new declaration of demonetization by Modi it has cost the nation an additional burden of 12000 Crore on the exchequer.

2. **Maintenance Cost:** Other than printing cost of the currency notes there are many other expenses that RBI and government has to do. Another important aspect is the maintenance in the form of storage of notes, transportation of the notes to the distant places, security of the notes, and devices for the detection of counterfeit notes. The other major aspect of the maintenance is that the distribution of money through ATM machines at the different locations. It is reported that all this maintenance cost the government about 5% of the GDP of India. In nutshell we can save somewhere around 500 crores by this mean only.
3. **Wipe away the black money from the market:** it has been observed that many businessmen start evading the real money. Most of them never show the actual business on paper. This habit of evading sales has caused a lot of Impact on the tax of the country. Small shopkeepers and big industrialists do this to save tax. This practice has created a very big problem of loss of tax to the exchequer. The loss of huge money has lead to the parallel economy in the state that has created a big los not only to the government but towards the development of the common people's goal. The presence of cashless economy will definitely lead to the development of the country by means of collecting surplus taxes and also to spend these taxes for the benefit of the scheme. Modi in his poll manifesto of 2014 general election has announced that if the government is able to bring back the black money in the mainstream than every Indian will have 15 lakhs of rupees in their accounts irrespective of their income potential

### **Challenges in establishing Cashless economy**

A cashless economy is being implemented, and caused some short-term hardship for the entire economy, but it has also revealed some encouraging changes from different sectors. It is crucial to apply the policy without compromising their ability to exist. The following actions should be considered in order to successfully implement the cashless policy between micro, small, and medium-sized businesses:

1. **Training:** In a nation where the insufficient sensitization and a low literacy rate is the main problem. It is necessary to spread awareness of the value of policy all the way down to the local level.

2. **Lack of Infrastructure:** in India there are many areas where bank is still a distant dream. The remote areas are still not having the banks at their door step. People have to move to distant places to have their money transactions in the banks. There are no ATM facilities in the remote areas. Even the ATM is not fully backup with the electricity and other IT related facilities. It is the chief concern of the government and the banks to come up with the basic and secure infrastructure for the banking services.

3. **Lack of education:** People living in the remote villages and areas of the country are still not educated enough and are not able to operate the banking services effectively. Illiterate people with bank accounts in the country are not even good enough to fill in the bank forms to deposit and withdrawal money. They have to take help of the people in the banks to fill in the forms and get their work done. It has become the prime responsibility of the government to start a campaign in the form of mission to enable the people to discharge their duty by themselves. Lack of education and the poor syllabus done in the schools are the main reasons that they are not able to operate their bank accounts.

Furthermore, illiterate and the people with less exposure to such facilities are not able to operate the cards. The people are not aware of the security measures of the PIN number etc.

4. **Customer awareness is missing:** consumers are not aware about the different aspects of cashless transactions. Service tax, transaction fee, security of the account all matters should be stressed upon so that consumer gets awareness and become an effective party to the mission.

5. **Security:** The security and safety of the money should be ensured. To manage situations involving payment-related fraud and other problems, there should be a strict legal framework.

6. **Internet Connection:** Access to the Internet and enough wi-fi are fundamental requirements for a cashless economy and digital payments.

## **Conclusion**

When discussing cashless economies, we emphasised digital habits and India's efforts to put one into place. There is use of the cashless economy to create a transparent and moral economic climate in a society where technology rules. It is commonly agreed that implementing a cashless economy might prevent both money laundering and corruption. The government needs to Notwithstanding obstacles, the numerous efforts that had been undertaken. Regulations and the development of financial infrastructure may help Indians by educating them about the advantages of a cashless economy and helping them prepare for the worst-case situation. If we look at the overall scenario of establishing the cashless economy, its benefits and uses in the present system it can be said that cashless economy is the need of

the hour. It has become not only important but necessary for the country to go cashless for the systematic development in the economy. This is to be done in a very systematic way some of the initiatives that should be taken are

1. People should be educated adequately. The use of cards in the ATM should be described to the people so that they can easily use the card.
2. Proper infrastructure should be developed in the remote areas so that this facility should be taken to the rural and remote India.

By following some of the points it can be said that we can effectively implement the cashless transactions in the country. It will be better to say that India at this point of time has to go for less cash economy rather than cash less economy. The continuous march towards less cash economy will lead to cashless economy in the country.

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