



WWJMRD 2017; 3(9): 10-12
www.wwjmr.com
International Journal
Peer Reviewed Journal
Refereed Journal
Indexed Journal
UGC Approved Journal
Impact Factor MJIF: 4.25
e-ISSN: 2454-6615

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Cashless Economy: Opportunities and Challenges in India

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Abstract

Cash may be defined as the legal common way for all kinds of material transaction in an economy. In a highly unorganized economy, the circulation of currency notes without disclosing of its actual income to appropriate authorities provides enough scope for accumulation of black money in the hands of people as well as circulation of duplicate currency notes. So, it is necessary to promote digital transaction & plastic money in order to track all the payments and income sources of people. Indian governments also inclined to transform Indian banking system from traditional branch based practices to technology driven cashless banking. And for this it provides enough opportunities such as increasing mobile & internet penetration, raising disposable income, ensuring various life style, urbanization, increasing foreign investment and latest economic and taxation reforms etc. to accelerate digital transactions but we have to encounter number of challenges also like poor internet connectivity in rural areas, digital literacy, cyber security issues, highly fragmented unorganized economy, etc. Now we can conclude that we have initiated such measures which will paves the way for such a digital transformation of Indian economy.

Keywords: Internet Penetration, Mobile Penetration, Cyber Security, Digital Literacy

Introduction

Cash is the life blood of any economy. We can't expect any economic activity without cash. Cash may be defined as legal medium through which all the transaction took place in an economy. Currency notes in India are issued and controlled by Reserve Bank of India. Out of banking circulation of currency notes in an economy creates enough scope for unaccounted transactions thus creation of Unaccounted money or Black money with people. Which accelerates the expenditure dis-proportionate to their accounted income. Proving less scope for the government to determine the taxable income and collect necessary revenue in the form of direct and indirect taxes which is not sufficient to meet planned or unplanned government expenditure so the deficiency is meet by deficit financing thus issuing new currency notes which is further added by free circulation duplicate notes in our economy. In order to bring transparency, efficiency, circulation of money through banking channel, impose checks on black money in hands of people necessitates the need of cashless transactions in an economy. Indian economy with an unprecedented growth rate of 7.6% and 7.1% in 2015-16 and 2016-17 respectively, topped the world banks growth outlook. Indian economy is transforming itself from agro based economy to manufacturing and service sector dominated economy. Share of agriculture & allied sector to Indian GDP reduced to 17.2% in 2016-17 whereas service sector alone contributing more than 58% of Indian GDP. Last three may be characterized as digital or IT revolution of Indian economy. Sh. Narendra Modi Lead government after assuming office in 2014 come up with innovative ideas to transform Indian economy from traditional practices to digital economy through implementation of various flagship programs such as Digital India, Make in India, Startup India Stand up India, Pradhan Mantri Jan Dhan Yojna, Smart cities etc. in order to bring larger part of population under banking umbrella. Financial inclusion is the first requisite for moving in direction of cashless economy in order to bring large unbanked population under banking system Pradhan Mantri Jan Dhan Yojna was launched in August 2014.

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Another historic step was taken in the form of demonetization of two high denomination i. e. 500 & 1000 currency notes with an objective to curb corruption, counterfeiting, the use of high denomination notes for terrorist activities and accumulation of black money generated that has not been declared to tax authorities. Demonetization Objectives of this paper is to explore the opportunities and challenges in promotion of cashless banking in India.

Research Methodology

Present study is descriptive as well as exploratory in nature. Secondary data from authentic sources like Hand of Statistics of Indian Economy, Published by Reserve bank of India, Reports published by NITI Aayog, World bank Data Base, and the facts produced by several research agencies has been used to draw meaningful conclusions about opportunities and challenges for cashless banking in India.

Opportunities in India

- **Increasing Internet Penetration:** Internet penetration in India is continuously raising in last three years. According to a report published by Internet & Mobile Association of India and market research firm IMRB mobile internet users reached to 420 million by June 2017. And the proportion of data component raised from 45% to 65% within a short period of five years. Further launching of Reliance Jio last year and other telecom companies come up with affordable data packs continuously increasing the internet penetration in India. Due to increasing internet penetration Indian banks continuously increasing their technological infrastructure to provide innovation, affordable, user friendly services to enhance consumer experiences and gain competitive advantages. Internet and mobile banking gaining rapid foothold in Indian economy especially in last one year. Digital payments touched Rs. 200,251.32 billion in May 2017 as compared to 176,001.51 billion in May 2016. Digital payments mechanisms such as RTGS, Retail Electronic clearing, Prepaid installment payments, cards, m-wallet, interbank & intra banking transactions are continuously gaining momentum in last one year. Indian customers are now shifting from traditional branch banking to internet banking due to ease and convenience around 44% of users are using net banking, it emerged as the favorite mode of payments among internet users in India.
- **Increasing Smart Phones Penetration:** Availability of low cost smart phones coupled with affordable internet data packs Indian consumers are shifting from feature phones to smart phones. Number of smart phone users in India is estimated to reach 279.24 million by 2017. Demand of smart phones has reached its saturation point in Tier-1 cities whereas as it is continuously raising in Tier -2 and Tier-3 cities and rural areas. Indian banks including public sector banks are committed to provide mobile banking facilities and all most all banks have their own m-wallets which are linked with their debit or credit cards remove the hindrances of carrying physical cash in their hands. Volume of transactions through m-wallets from rose from 50.31 million in May 2016 to 241.72 million in

May 2017 this is an unprecedented growth rate of 380.51% according to Reserve bank of India Estimates. Increasing use of smart phones significantly contribution in transforming Indian banking from traditional branch based facilities to technologically driven mobile / internet based facility. India holds 4th ranks across the globe in adoption of mobile banking facilities.

- **Raising Trends of E-Commerce:** The E-Commerce market in India has grown from \$ 4.4 billion in 2010 to around \$16 billion in 2015 and this further expected to hit by \$76 billion by 2021. Number of online buyers has increased to 90 million in last three years. Raising trends of online purchasing backed by many forces such as strong value proposition offered by online merchants, proliferating payment platform, strengthening delivery channels, logistics, home delivery, 24*7 active market, increasing mobile & internet penetration etc. Increasing penetration of E-commerce also contributing digital transactions in India.
- **Technological Innovation in Indian Banking:** Increasing mobile penetration, overcrowded bank branches, need of 24*7 banking facilities with ease and convenience, increasing urbanization, organized retailing, raising education levels, raising income level, changing life style of Indian customers forced Indian banks to develop technological infrastructure for its customers. Indian banks are inclined to develop digital banking facilities at various levels from back – office processing, convergence, IT – enabled business process reengineering as well as communication with its customers in last few year. Indian banks currently devoting 15% of their spending on development of technological infrastructure
- **Government Initiatives:** In last three years Narendra Modi lead NDA government come up with innovative ideas and took several initiatives such as Pradhan Mantri Jan Dhan Yojna with a goal of opening bank account for every house hold in order to bring comprehensive financial inclusion in India. We have made a significant achievement by opening 175 million new bank accounts from 2011 to 2014 according to World Bank report and this further increased to 255.1 million in November 2016. Under second round of Pradhan Mantri Jan Dhan Yojna 4, 90,000 were identified and allotted for coverage.
- **Increasing Urbanization:** trends of urbanization is continuously increasing in last three years with an annual growth rate of 2%. Urban population constitutes 33.136% of total population in 2016 in India. Increasing urbanization raising education level, increasing disposable income, changing life style, increasing mobile and internet penetration shifting the Indian customers towards E-commerce proliferating digital transactions in India

Challenges for Cash less Economy in India

- **Limited Banking Penetration:** limited banking penetration in the biggest challenge, India has comparative less number of branches in comparison to its other counterparts. Currently India has 13.5 number of commercial bank branches per 100,000 adult population. Only 40% of adult population has bank

account, 13% population have debit cards, India is a country of over 600,000 villages but only 5% of village habitants have commercial bank branch in India. There were 50,554 bank branches in rural areas in 2016. Lack of sufficient banking infrastructure for such a huge population it becomes a challenging task to promote digital payments where 95% of payments are made physically.

- **Poor Penetration of Plastic Money:** Most distressing feature of Indian economy is that India has large no of currency notes as compared to many other large economies. India had 76.47 billion currency notes in circulation in 2012-13 compared with 34.5 billion in the US. According to data released by Reserve Bank of India money in circulation stood at Rs. 17.97 trillion as on 4 November 2016. In this way increase of currency notes in an economy creates demand and supply gaps accelerating inflation rates to new heights. Tracking of transactions and expenditure is not possible in case of physical exchange of currency notes in unorganized market. India uses too much cash for transactions. The ratio of cash to gross domestic product is one of the highest in the world—12.42% in 2014, compared with 9.47% in China or 4% in Brazil. In this way unaccounted circulation of currency notes creates a ditch between rich and poor people because it provides enough scope for speculative activities in stock market, real estate, money laundering etc. This is the biggest hindrance in promoting cashless transactions in Indian economy.
- **Digital Literacy:** India is a country of over 6, 50,000 villages with an illiteracy rate of more than 25-30%. Digital literacy is just 10% in India. In the absence of digital literacy we can't expect the transformation of Indian economy from traditional branch based model to virtually exist cashless economy.
- **Unorganized Economy:** Indian economy is highly indigenous economy more than 50% of Indian population engaged in agricultural & allied activities, whereas out of crop production workforce constitutes 75% and 69% in rural and urban areas respectively according to NSS 68th round data in 2011-12. Bank account penetration was just 35% in 2011 which is increased to 53% in 2014 according to World Bank report. With an objective to bring larger part of Indian population under banking facilities Pradhan Mantri Jan Dhan Yojna was launched in August 2014. Under this scheme till August 2017 number of beneficiaries were 29.52 crores but 72% Jan Dhan accounts were dormant, this is the biggest hindrance in cashless payments in India.
- **Cyber Security Issues:** Another mounting challenge in digital payments is cyber security issues, with the magnitude with which digital transaction taking place after demonetization the risk of online fraud, leakage of confidential information, cyber-crimes, malware and virus attacks has been raising. This is the biggest concern to deal with in order to popularize digital payments.

Conclusion

Last three years bring drastic transformation in Indian economy from its traditional practices. Significant revolutionary moves have been taken in the form of digital

India e.g. Startup India Stand up India, refinement in tax laws with implementation of goods and service tax, promotion of foreign investment, financial inclusion, demonetization etc. All these measures bring drastic transformation in Indian economy by promoting information and technology in each and every sector. Raising disposable income, changing life style & education level, increasing corporatization and demographic dividend are the factors which are significantly contributing in digital transactions in India.

Due to innovation in digital payment technologies and increasing customer satisfaction, the growth trends in digital payments are positive and will continue to dominate the payment landscape in India.

But the biggest challenge in front of Indian economy is digital illiteracy, inadequate rural penetration of internet connectivity, inadequate banking infrastructure, lack of awareness among rural customers, unorganized indigenous market.

From the above discussion it can be concluded that Indian economy is in its nascent stage of its transformation from branch based model to technology driven cashless economy. Today it is confined to highly developed urban areas, transformation of rural areas is the biggest challenge in front of Indian economy. But few initial steps taken by Indian government paves the way for its transformation in long run from traditional branch based model to technologically driven cashless economy in order to bring transparency, flexibility, efficiency, convenient, customer friendly banking facilities in India.

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