

Cashless Economy in India: Challenges Ahead

Borhan Omar Ahmad Al-Dalaien*

**Research Scholar, Department of Commerce, Aligarh Muslim University, Aligarh-202002, India.*

Article Received: 24 July 2017

Article Accepted: 17 August 2017

Article Published: 26 August 2017

ABSTRACT

Cashless economy is an economic system in which there is little or very low cash flow in a society and goods and services are bought and paid through electronic media. Cashless economy is the economy in which transactions are made by debit cards, credit cards, cheques or direct transfer from one account to another. The present research highlights the conceptual background of cashless economy in India. Besides, the study examines the benefits of cashless economy to the general public by collecting data with the help of questionnaire designed on a five point Likert scale. The sample size of the study is 112 respondents consist of students, teachers, and businessmen. One sample t-test has been applied to test the hypothesis. The results revealed that cashless economy is not beneficial to the general public.

Key words: cashless economy, debit cards, net banking, t-test.

1. INTRODUCTION

Cashless economy is an economic system in which transactions are not done predominantly in exchange for actual cash. It does not refer to an outright absence of cash transactions in the economic setting but one in which the amount of cash-based transactions are kept to the barest minimum. A cashless economy or an e-payment system is a situation where there is little or very low cash flow in a given society, meaning thereby, transactions will be made by electronic channels like debit cards, electronic funds transfer, mobile payments, multi-functional ATMs, and internet banking. It is the economy that run mostly on plastic or digital money and thus with minimal cash or money in paper form. In other words, it refers to the widespread application of computer technology in the financial system. It is designed to breakdown the traditional barriers hindering financial inclusion of millions of Indians and bring low cost, secure and convenient financial services to urban, semi-urban and rural areas across the country. Nevertheless, cashless economy is defined as one in which there are assumed to be no transactions frictions that can be reduced through the use of money balances, and that accordingly provide a reason for holding such balances even when they earn rate of return. It is not the complete absence of cash but it is a payment system that is secure, convenient, and affordable. It is an economic system in which goods and services are bought and paid for through electronic media.

2. TYPES OF CASHLESS MODES AND PAYMENTS

2.1 Mobile wallet

It is basically a virtual wallet available on mobile phone. A mobile wallet is a way to carry credit card or debit card information in a digital form on mobile device. A user can pay with his/her Smartphone, tablet, or smart watch instead of using your physical plastic card to make purchases. A user needs to make an account with a mobile wallet provider. After which money is added to the 'mobile wallet' account using a debit, credit, online transaction from bank account or via cash. An individual can store cash in his/her mobile to make online or offline payments. Various service providers offer these wallets via mobile apps, which is to be downloaded on

the phone. She/he can transfer the money into these wallets online by using credit/debit card or net banking. This means that there is no need to furnish the card details every time while paying a bill or make a purchase online via the wallet. It can be used to pay bills and make online purchases.

2.2 Plastic money

It includes credit, debit and prepaid cards. The latter can be issued by banks or non-banks and it can be physical or virtual. These can be bought and recharged online via net banking and can be used to make online or point-of-sale (PoS) purchases. They can be given as gift cards. These cards are used for three primary purposes – for withdrawing money from ATMs, making online payments and swiping for purchases or payments at PoS terminals at merchant outlets like shops, restaurants, fuel pumps etc.

2.3 Net banking

It does not involve any wallet and is simply a method of online transfer of funds from one bank account to another bank account, credit card, or a third party. It can be used through a computer or mobile phone. A person has to log in to her/his bank account on the internet and transfer money via national electronic funds transfer (NEFT), real-time gross settlement (RTGS) or immediate payment service (IMPS), all of which come at a nominal transaction cost.

3. BENEFITS OF CASHLESS ECONOMY

3.1 Faster transactions

It has been proved that queuing at point of sale terminals and vending machines is greatly reduced; typically three times more people can be served using a cashless system than could have been if they were paying cash. This leaves employees more time to enjoy their break. Improving the speed of service may also offer the benefit of reducing staff levels at off peak times.

3.2 Prompt settlement of transactions

E-banking speeds up the settlement of transactions both locally and internationally, where the bank stands as paying bank to the customers for settlement of transaction or as collecting bank for collection of payment on transactions.

3.3 Convenience and Lower risk

The ease of conducting financial transactions is probably the biggest motivator to go digital. There will be no need to carry cash, plastic cards, or even queue up for ATM withdrawals.

It is easy to block a credit card or mobile wallet remotely if it has been stolen. But, it's impossible to get the stolen cash back.

3.4 Taxation

There is lesser scope of hiding income and evading taxation because of lesser availability of hard cash at homes and more in banks. When there are more tax payers, it ultimately leads to a lesser rate of taxation for the whole country.

3.5 Transparency and accountability

Electronic transactions or plastic money always leaves a digital proof beneficial for both the taxpayer (consumer) and the tax collector (government) and hence makes the system much more transparent and compliant.

3.6 Reduced Maintenance Costs

Digital transaction is a boon in terms of processing costs and waiting time. If implemented properly, it will increase the consumption and production rates, thereby improving the economy. Moreover, the logistics and supply chain of cash is costing the exchequer a fortune. The amount of money required in printing cash, its storage, transportation, distribution and detecting counterfeit currency is huge.

4. CHALLENGES OF CASHLESS POLICY IN INDIA

4.1 Digital Literacy

More than half of the nation still does not know how to use a computer. People in rural areas still don't know about smart phone. Besides, there is lack of internet facilities and without it a country cannot become cashless. There are still many rural and urban areas where there the access of having 2G network is very difficult. Moreover, the cost of Internet access is very high as compared to developed countries.

4.2 Few Banks in villages

The capital city New Delhi alone has about 20 HDFC bank branches. There are several villages and Tehsils that don't even have one. More the banks, more the cash deposits in accounts. Banks in villages should be helpful in teaching the residents the process, usage and benefits of plastic cards.

4.3 Low Literacy Rate

Low literacy rate hinders the accessibility of banking services. Citizens should not only know how to read and write but also possess basic ICT literacy to fully enjoy the benefits of e-payments.

4.4 Language Barrier

Internet is an English based platform. The details on the plastic card are also in English. The message received on mobile regarding transaction is also in English. Therefore, it is required to use multiple languages regarding these processes or make everyone learn English.

4.5 Costly Swipe Machines

Swipe machines are also not subsidy free. It can only be afforded by rich shopkeepers. It can't be expected from an auto driver or a normal grocery seller to afford swipe card machines. Besides, many street vendors, shopkeepers don't know how to use swipe machines.

5. OBJECTIVES OF THE STUDY

1. To elucidate the concept of cashless economy.
2. To highlight the challenges before cashless economy in India.
3. To examine the benefits of cashless economy to the general public.

6. HYPOTHESES OF THE STUDY

H_{01} : There are no significant benefits of cashless economy to the general public.

H_{a1} : There are significant benefits of cashless economy to the general public.

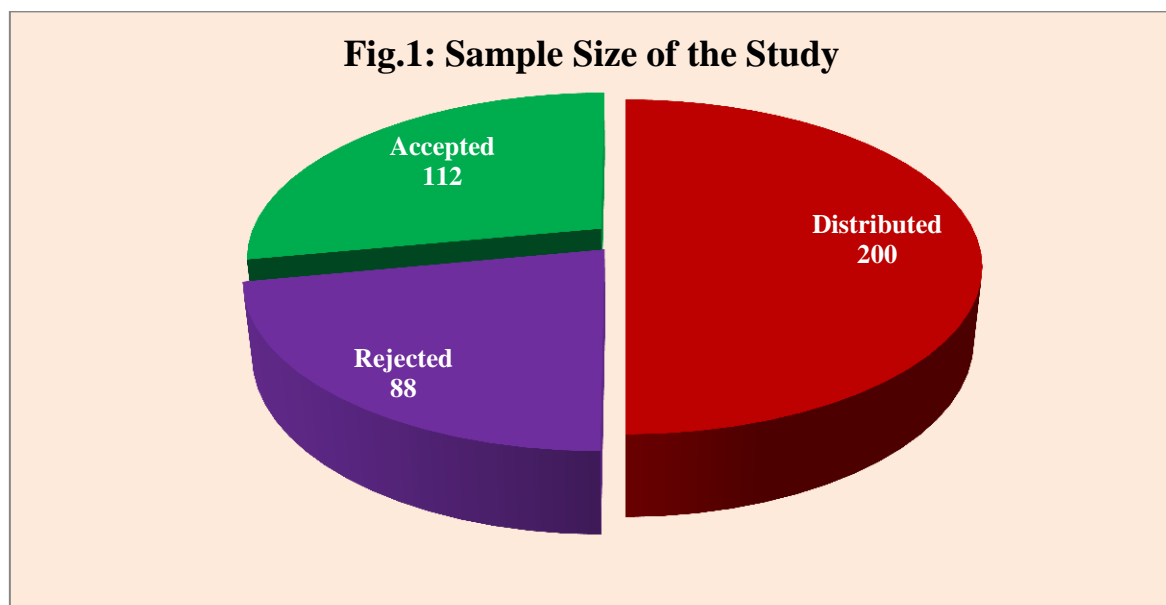
7. RESEARCH METHODOLOGY

The research used convenient sampling. The people which are easily accessible have been chosen for the study. A total of 250 questionnaires were distributed to the respondents living in Aligarh in the month of February, 2017. 88 (44%) questionnaires were rejected and 112 (56%) were accepted for analysis. In this way, the sample size of the study is 112 respondents (Table 1). Secondary data was collected from websites, journals, articles, magazines, theses, reports and other relevant documents. So far analysis is concerned; one sample t-test has been used to test the hypothesis through SPSS_20 version.

Table 1: Sample Size of the Study

Questionnaires	Frequency	Percent
Distributed	200	100
Rejected	88	44
Accepted	112	56

Source: Primary Data



8. DEMOGRAPHIC PROFILE OF RESPONDENTS

Table 2 highlights the demographic profile of the selected respondents. Table 2 shows that out of 112 respondents, 68 (61%) were males and 44 (39%) were females. Moreover, 29 (26%) were under the age of 25 years, 38 (34%) were belong to the age group of 25-35 years, 25 (22%) were in the age group of 36-45 years and 20 (18%) have the age of more than 45 years. So far education of respondents is concerned, 34% were

graduates, 37% were post graduates, and 33 (29%) having other degrees like PhD or diploma. Moreover, the sample includes 44% students, 30% teachers, and 26% businessmen living in Aligarh city.

Table 2: Shows the Demographic Profile of the Respondents

Gender (N=112)	Frequency	Percent
Male	68	61
Female	44	39
Age (N=112)		
Upto 25 Years	29	26
25-35 Years	38	34
36-45 Years	25	22
Above 45 Years	20	18
Designation (N=112)		
Students	49	44
Teachers	34	30
Businessmen	29	26
Education (N=112)		
Graduation	38	34
Post Graduation	41	37
Others	33	29

9. HYPOTHESES TESTING

H₀₁: There are no significant benefits of cashless economy to general public.

H_{a1}: There are significant benefits of cashless economy to general public.

One sample t-test has been applied as the statistical tool to test the hypothesis. Table 3 exhibits the results of one sample t-test. It shows the mean value, standard deviation, standard error, t value, degrees of freedom and significant value of all five statements used in the study.

The first statement has the mean value of 2.1187 and its significant value is more than 0.05. Besides, 2.0986 is the mean value of second statement with the P value of 0.854. The third statement has the mean value of 1.9974 and its significant value is more than 0.05. The fourth statement has the mean value of 2.2240 and its significant value is more than 0.05. The last statement has the mean value of 2.0748 and its significant value is more than 0.05. The mean values of all statements are below 2.5 and significant value in each statement is more than 0.05. Therefore, the null hypothesis stands accepted and it can be said that there are no significant benefits of cashless economy to general public.

Table 3: Result of One Sample t-test

No.	Statements	N=112 (Test Value=2.5)					
		Mean	S.D.	S.E.	T Value	df	Sig.
1	You can operate basic technological appliances with regards to e-payment services.	2.1187	1.0584	0.6984	4.514	111	0.276
2	Cashless economy will prevent money laundering and corruption.	2.0986	1.2239	0.5614	-1.987	111	0.854
3	Cashless economy will reduce the cost of banking services.	1.9974	1.4475	0.3574	-2.806	111	0.147
4	Cashless economy will prove advantageous to all sectors of the economy.	2.2240	1.8564	0.4460	9.556	111	0.559
5	Communication issues like power, ICT and cheque clearing period are important issues to be considered for the smooth operation of the cashless economy.	2.0748	1.0093	0.5036	-1.409	111	0.002

Source: Output of SPSS_20

10. CONCLUSION

From the above analysis, it has been found that cashless economy is an economic system in which there is little or very low cash flow in a society and goods and services are bought and paid through electronic media. Cashless economy is the economy in which transactions are made by debit cards, credit cards, cheques or direct transfer from one account to another. There are many benefits of cashless economy like faster transactions, increased sales, prompt settlement of transactions, convenience and lower risk, transparency and accountability, and reduced maintenance costs. Despite many benefits, there are several challenges before cashless policy in India such as inadequate number of ATMs, digital illiteracy, lack of internet facilities, few banks in villages, costly swipe machines etc. Nonetheless, the present study also conducted a survey of 112 respondents in Aligarh District through questionnaires designed on five point likert scale to evaluate the benefits of cashless economy to the general public. One sample t-test has been applied as the statistical tool to test the hypothesis. The findings revealed that there are no significant benefits of cashless economy to the general public.

REFERENCES

- [1] Ajayi, M. (2014). Banking Sector Reforms and Banking Consolidation: Conceptual Framework. *Bullion*, Vol. 29, No. 2, 45-51.
- [2] Annual Report of the RBI for the Year 2013-14.
URL: <http://rbi.org.in/scripts/AnnualReportPublications.aspx?year=2014>

- [3] Babalola, R. (2008). E-payment: Towards a Cashless Economy. A keynote address of the Finance Minister of State at Card Expo Africa Conference. URL: <http://www.nigeriavillagesquare.com>
- [4] Daniel, D., et al. (2006). A Move toward a Cashless Society: A Closer Look at Payment Instrument Economics. *Review of Network Economics* 5(2): 175-198.
- [5] Das, A. (2008). Acceptability Standards in Credit Card Industry. Draft report. <http://www.math.iitb.ac.in/~ashish/workshop/CreditCard23November10.pdf>
- [6] Hunt, R.M. (2013). An Introduction to the Economics of Payment Card Networks. *Review of Network Economics*. Vol. 2, Issue 2, 80-96. URL: <http://web.cenet.org.cn/upfile/31290.pdf>
- [7] Humphrey, D. et al. (2006). Benefits from a Changing Payment Technology in European Banking. *Journal of Banking and Finance*, 30(6): 1631-1652.
- [8] Payment Systems in India - Vision 2011-14
URL: <http://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/VIS01092014.pdf>
- [9] Trend and Progress of Banking in India. RBI Publication, October 2015. URL: http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/RTP0809PRD_Full.pdf
- [10] Wright, J. (2012). Optimal Card Payment Systems. *European Economic Review*, 47(4): 587-612.

WEBSITES

- <http://www.inrevisacheckmastermoneyantitrustlitigation.com/history.php3>
- <http://www.businessweek.com/news/2010-05-19/credit-card-fees-may-be-next-as-lobby-smells-blood-.html>
- <http://www.theatlantic.com/business/archive/2010/05/reform-extends-to-debit-card-interchange-fees/56746/>
- <http://www.nytimes.com/2010/01/05/your-money/credit-and-debit-cards/05visa.html?ref=business&pagewanted=all>
- http://www.mastercard.com/us/company/en/newsroom/new_survey_results.html
- <http://www.dailytelegraph.com.au/money/banking/debt-shy-aussies-turn-to-debit-cards/story-e6frezc9-1225748286486>