



## CASHLESS TRANSACTIONS – A STEP TOWARDS DIGITAL INDIA

**Dr. Madhu Gaba**

Associate Professor, Arya P.G. College Panipat.

### ABSTRACT :

*The rapid development of electronic commerce (e-commerce) has also directed to the growth of new convenient and secure methods of payment. In the digital era, new methods of payments are being introduced constantly. Today, it is the time for digital or cashless transactions. In the years now, we have seen a sharp shift towards cashless payment mode instead of monetary exchange.*



**KEYWORDS :** *electronic commerce , cashless transactions , monetary exchange.*

### INTRODUCTION

RBI and Indian Government are constantly highlighting the Cashless Transactions by promoting various electronic or digital mediums that is credit cards, debit cards, net banking, UPI apps etc. but the success of these electronic mediums depends on how customer perceive value in this payment system and have intention to adopt these cashless modes. To understand the cashless transactions, firstly we need to have a quick view of cash and transactions in cash. Through which all transactions can take place in the economy, we can call it cash. The Reserve Bank of India issues and regulates currency notes. Cash is easy to use & store and offers great convenience. Cash transactions are familiar and simple. No Electronic Equipment and Terminal is required for this. Cash can be carried anytime and anywhere. Cash payments are undetectable, meeting demand of consumers for privacy but the circulation of cash outside the banking system creates scope for unaccounted money. This unaccounted income leads to additional expenditure than accounted income and makes it difficult to track transactions. It is difficult for the govt. to determine the tax revenue and collect the essential income in the form of indirect and direct taxes. Cashless payments are required in the economy in order to increase transaction efficiency and transparency and to combat black money. Cashless transactions can be executed through debit/credit card, cheque, demand draft, net banking, digital wallets or any other form of online payment. Cashless transactions are quicker and appropriate in comparison to Cash Transactions. Additionally, the cashless society reduces the need to carry cash and count it every time a transaction takes place.

### CASHLESS ECONOMY

In a Cashless economy, most dealings are completed without the use of actual currency. A system of economic exchange in which features like cr. and dr. cards, electronic funds transfers, and the use of digital wallets are used. The cashless economy idea is fully supported by the Indian government. However, cash is still the dominant mode for the outflow for the

Indian consumer, but people are moving towards cashless transactions. Cashless payments helped customers and banks by reducing cost, time, long queue, handling of cash, visit to bank branch, file storage space of banks and customers, waiting time etc. It is easy for tracking and maintenance of records by banks and customers, viewing account details. There are many factors motivating people to choose cashless transactions, including convenience, access to digital technology, and the need to buy things faster and cheaper. These are probably the biggest motivator for the customers to opt cashless modes. It has been found in a study that this move to cashless society might help curb black money by ensuring transparency in transactions. It can also help to increase in the consumption and hence lead to increase in the GDP of the country.

Like other countries, in India also, we know that card payments are still people's top priority. The most common modes for cashless transactions were credit and Debit cards but after the historical decision of demonetization and shift in demand boosted other methods of cashless transactions. The government has been promoting different digital payment methods like Debit /Credit Card, AEPS, NEFT, UPI, and RTGS, among others, in an effort to promote cashless transactions and make India a cashless society. The RBI report Vision 2018 on the payment and settlement system reaffirms its commitment to promoting the usage of digital payments by all societal segments in order to create a society with "less cash." According to this paper, RBI would emphasis on 4 key initiatives, including responsive regulation, strong structure, an efficient supervisory system, and customer centricity, in order to promote the adoption of digital payments in India. In March 2018, RBI announced the creation of a new RBI - DPI (Digital Payments Index) as the basis for capturing the extent of digitization of payments within the country. The RBI reported that as of Sep 2018, there were 44 million and 990 million debit and credit cards, respectively, demonstrating the preference for cashless transactions. At Red Fort on 15th August 2019, Prime Minister

Narendra Modi gave the Motto, "Say Yes to Digital payment, No to Cash. According to a report by the RBI, digital payments increased by 30.19% in the year that ended in March 2021. The Digital Payments Index (RBI-DPI), which measures the use and expansion of cashless transactions nationwide over the past few years, increased to 270.59 at the end of March 2021. The factors that will cause preferences to change include a strong payment infrastructure, a change in consumer behavior, and the government's goal of making India a cashless economy.

## Modes of Cashless Payments

Modes of cashless payments are follows:

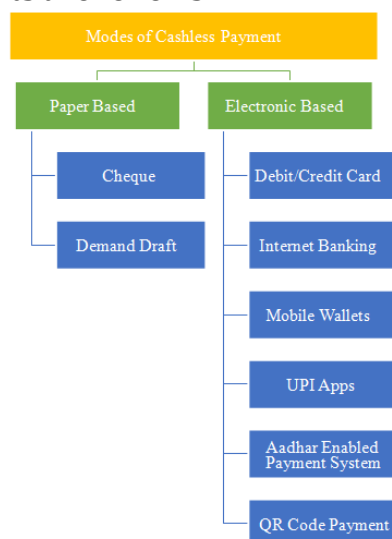


Figure 1.1 Modes of Cashless Transaction

## Why Cashless?

India is traditionally cash-based economy. Cash plays an important role in retail transactions today, and this role does not seem to have transformed much in recent years. Cash is popular as it is user friendly, does not require any third-party intermediation, no risk of cyber fraud and does not create a data point. Although cash is used as a major means of transaction all over the world, there are many risks in handling cash which compels us to search for alternative methods. Cash is a costly affair for government. As cash-based transactions are typically unsafe, inconvenient, expensive and lacks transparency because of which corruption and financial crimes happen. The result of this is to non-compliance of tax payments. To eliminate the unaccounted income and curb the corruption, government is working in the direction to boost cashless transactions. The transactions through cards, mobile wallets or online modes, are cost effective through increased efficiency, speed and transparency. This proves beneficial in collecting revenues and to curb black money. Digitization will improve the tax collection as the transactions will be traceable. It is crucial to comprehend the benefits and difficulties of adopting cashless transactions in this context. Despite all the efforts, majority of countries remain heavily dependent on cash, people face many challenges while opting for cashless modes of payment.

## IMPORTANCE OF CASHLESS TRANSACTIONS

1. **Fast, Easy and Convenient:** The biggest motivator to adopt cashless modes is convenience and ease of using it 24 by 7 from anywhere. It rules out the need to carry cash and also saves time and efforts as there is no need to wait in long queues for using ATM services.
2. **Cost Saving & Efficient:** RBI and commercial banks incur annual losses of about Rs 21,000 crore due to cash operations. The country can develop a cost-effective and effective banking system by moving toward a cashless economy.
3. **Digital Record of Transactions:** It keeps a digital history of each and every transaction that has ever been made. It facilitates budget control, expense reporting, and easier payment tracking, among other things.
4. **Stimulates Economic Growth:** Cashless transactions can guarantee that an economy grows quickly. More money in circulation in the economy means greater liquidity and lower interest rates, which will result from more currency in banks. Increases purchasing power will lead to more demand and production which in turn will create jobs. In this way, it can stimulate economic growth.
5. **Increases Transparency & Accountability:** Cashless transactions are easy to trace create the system further transparent. It improves security and aids in the prevention of dishonesty and malpractice. There is less opportunity to evade taxes and conceal income while in cash payments, it become difficult to track transaction and to hold someone accountable for additional expenditure than their accounted income. Cashless transactions can put a check on criminal activities such as smuggling, terrorism funding, human trafficking *etc.*
6. **Reduce Risk of Handling Cash:** It reduces the risk of handling cash and chances of robbery and being snatched. A pin protected card or mobile banking can allow you to make transactions without holding cash.
7. **Attractive Cash back Offers and Discounts:** Cashless modes like mobile wallets, UPI apps and card payments offer discounts and cash back offers while using e commerce. Sometimes when you do online purchase and make payment through cards or mobile wallets, you may get some discount or cash back in your wallet money. These attractive deals are lucrative to customers towards cashless transactions.

## CHALLENGES TO CASHLESS TRANSACTIONS

In a big country like ours, cash is still the preferred method of payment. According to the RBI annual report for 2018-19, the amount of currency in circulation increased to 21.1 lakh crore as of 2018-19 from 17.9 lakh crore on Nov 4, 2016, just a week before the note ban went into effect. Since demonetization, the amount of cash flowing through the economy has increased by 18%. The majority of people typically conduct business in cash payments because 95% of Indian retail business is offline and unorganized. There are many challenges associated with cashless transactions:

- **Security & Privacy Concerns:** Security and privacy concerns are the most important factor that has negative influence on customer intention to adopt cashless transactions. Digital payments have benefitted the consumer, but privacy concerns have also been reported. There are numerous incidents of fake ATM cards, theft of personal information, hackers' attack that raises concern about security issues over the Internet. The digital transaction has its footprint which makes customers more vulnerable to cyber frauds.
- **Inadequate Infrastructure:** To execute the digital transactions, availability of certain infrastructure is necessary. Inadequate infrastructure creates a hurdle in setting up the cashless system. Poor internet facilities, lack of robust digital payment interface and poor penetration of POS terminals are some challenges that need to be tackled.
- **Lack of Awareness and Required Digital Skills:** Most of the people lack awareness about digital payment modes and required digital skills to perform the non-cash transactions. Almost half of the population of India lives in rural areas and are not digitally competent to adopt digital modes of payment. Government has launched digital literacy schemes for creating awareness and to educate people about how to do cashless transactions.
- **Behavioral Constraints:** Many people have access to the required infrastructure to adopt cashless transactions, are still hesitant to switch to digital payments. People are fond of cash and they feel secured and satisfied hoarding their money in the form of cash. They prefer to carry cash while going for shopping. They do not want to change their way of transacting. Distrust in digital technology seems to be the reason behind this.
- **Transaction Cost on Online Payments:** While doing online payments, customer has to incur some extra cost which bank charges as transaction cost. This transaction cost is considered as extra burden on customer pocket which they have not to bear in cash transactions.
- **Low Financial Inclusion:** India had second unbanked population in the world. Indian government' initiative of PMJDY (Pradhan Mantri Jan Dhan Yojna) has brought about 80 percent populations under formal banking system. But these accounts were opened on zero balance and still lying dormant as no deposits and withdrawal have been undertaken by the account holders. People are still not using banking facilities. There may be many reasons like lack of income, unwillingness to deposit their cash in banks or lack of efficiency to operate the bank accounts.

## RECENT DEVELOPMENTS

The convenience of paying, the steadily rising smart phone penetration, easy and affordable access to internet resources, the increase of non-Banking payment institutions, advanced regulatory policies, and rising consumer readiness for the digital payment platform are just a few of the factors driving the sector's exponential growth. Here, some of the recent developments has been listed which have given boost to the digital payment sector.

### • Growth of Digital Payments Post-demonetization

India is not new to demonetization. In past 70 years, we have faced demonetization thrice. First it happened in 1946 when notes of ₹ 500; ₹ 1,000; ₹ 10,000; were declared as illegal tender. Second time it happened in 1978 and the third time it was in the year 2016, when Prime Minister Mr. Narendra Modi banned ₹ 500 and ₹ 1,000 notes and introduced new ₹ 500 and ₹ 2,000 notes. The demonetization of ₹ 500 and ₹ 1,000 notes was announced by the Indian govt. on November 8th, 2016. This decision of demonetization was mainly aimed to curb corruption, stop financing of terrorism and eliminating the black money. It also aimed to move the Indian economy towards digital transactions. Post demonetization banks witnessed a shoot in digital transactions across the country. With the demonetization initiative, the government hoped to achieve a number of goals and shifting the economy away from cash and toward digital payments. One of the good things out of demonetization is it pushed people towards the cashless payments. When people realized supply of cash in the economy was less, their immediate alternative was online services like net banking, Wallets like Paytm and Dr. /Cr. card.

India has a very high level of cash use, eschewing the banking system. Due to the shortage of cash after demonetization, digital payments rose, but they decreased once new banknotes were made available. The fact that the majority of Indians did not have an active bank account at the time of demonetization or not a significant balance in their savings account highlights the scope of the challenge in promoting digital transactions in India. Further, Govt. of India's initiative, 'Jan Dhan Yojna' aimed to extend banking facilities to the entire unbanked citizens has added more than 110 million debit card subscribers thereby providing access to consumers for e-payment. The provision of the electronic wallet and digital payment products has made faster check-in and check-out of e-commerce transactions and payment process has become very convenient. A number of options are available to consumers and this is making it more convenient for them to use digital payments. It has widened the scope of business for small entities as they can expand their business outside local boundaries.

### • Indian Government Initiatives to Promote Cashless Transactions

Digitalization of Indian economy has been one of the prime agenda of the Govt. of India. The goal of the Digital India program is to make India into a society where everyone has access to the internet. Many initiatives have been taken since then to promote digitalization of payment system.

- **PMJDY:** - This program was started with the goal of promoting financial inclusion by making it easy for the weaker and poorer segments of society to access all financial services, including opening bank accounts, remittance services, pensions, and insurance. As per a report of India Times, 43 crore bank accounts have been opened with a deposit of 1.46 lakh crore under this scheme as on August 2021. This initiative has brought a large unbanked population of the country under the organized banking system.
- **Digital Literacy Programme:** - The Indian government has taken many initiatives to encourage digital literacy. NDLM and DISHA was initiated with the vision to empower the Indian citizens with digital literacy skills.
- **Launch of UPI apps like BHIM App:** - Prime Minister Narendra Modi launched a UPI app BHIM in December, 2016 with an urge to people to make digital payments a habit. UPI apps provide seamless, quick, secure digital payment facilities to citizens of India. Banks have also launched their UPI apps like u mobile by UBI bank, imobile pay by ICICI, etc. UPI apps provide facility to operate multiple accounts from single mobile application hence provides a simplified solution for digital transactions.
- **DBT:** - this scheme is started by Govt. in 2013 to reform the subsidy system and to directly transfer the benefit of welfare schemes to the Aadhar linked bank accounts of targeted

beneficiaries. It has been a good initiative for financial inclusion of poor and under privileged people and brought them under a formal banking structure.

### Growth of E - Commerce Industry

E - Commerce market has shown huge growth with increasing smartphone penetration, rise in disposable income and popularity of e commerce websites like Amazon, Flipkart, Myntra. With more inclination towards online shopping, there has been growth in cashless transactions. E commerce sites provide many payment options including COD, card payments, internet banking, mobile wallets and payment through UPI apps. Previously, COD was the preferred mode of payment by customers while doing online shopping but with the advent of new payment solutions offering discounts and cash back offers on online payments, people nowadays prefer to make cashless transactions.

### Impact of COVID-19 on Cashless Transactions

The COVID-19 pandemic hit the world in 2020 followed by lockdown and social distancing norms which has brought a substantial change in the consumer payment behavior. The trend of cashless transactions accelerated to avoid physical touch. Cashless payments have been accelerated by the COVID-19 pandemic which gives impetus for avoiding unnecessary physical transactions. In the situation of this global corona virus pandemic, people started using UPI and other digital payment options to purchase goods and also understood the importance of these payment methods. During the COVID-19 lockdown, the use of electronic transactions rapidly increased in order to reduce the necessity for people to physically visit a bank branch. Especially in times of pandemic and lockdown, e-wallets and other electronic fund transfer methods are very helpful. E-wallets make it unnecessary to visit a bank branch to send or transfer money during a lockdown and help to eliminate the need for physical contact during pandemic conditions. As per Capgemini consumer survey August 2020, 64% of the respondents preferred contactless payments (digital wallets and QR codes) during the crisis. 41% of the consumers said that they used it for the first time. Data from NPCI also reflected the fact that people preferred digital payments to avoid physical contact.

### CONCLUSION

The shift towards cashless transactions is a pivotal element in India's Digital India initiative, aiming to create a digitally empowered society. By minimizing cash dependency, the nation can enhance financial inclusion, improve transparency, and reduce corruption. Government initiatives, such as the promotion of digital payment platforms and supportive policies, have significantly contributed to this transformation. However, challenges like cybersecurity threats, digital literacy, and infrastructure development must be addressed to ensure the sustainability and inclusivity of this digital revolution. As India continues to embrace cashless transactions, it stands to benefit from a more efficient, transparent, and inclusive economy.

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