

Cashless Transactions: Opportunities and Challenges

* *Bhakti A. Biradar¹ and Ajinkya R. Biradar²*

¹ *Indira Institute of Management, Pune.*

² *Applied Micro Circuits Pvt. Ltd., Pune*

Abstract:

Cashless transaction is a financial transaction done by credit cards, bank transfers, checks with no bills. India is cash based country with around 98% cash-transactions. Illiteracy, less banking habits, inaccessible banking services, lack of awareness, lack of infrastructure to support non-cash payment and internet connectivity are major of the challenges faced by India. The announcement of demonetization of existing INR 500 and INR 1000 currency notes and introduction of new notes is a crucial step towards making India a cashless economy. The increasing use of online payment services and cashless transactions will make India achieve the objective of economic growth, financial inclusion and curbing corruption.

Keywords:- *Cashless, Challenges, Demonetization, Online payment services.*

1. Introduction

Cashless transaction means financial transaction handled by means of credit cards, bank transfers, checks with no bills.

Cashless transactions can be done by three modes:

1) Mobile Wallet: Mobile wallets are digital wallets that carry digital information about credit and debit cards. They can be used for making payments, store coupons, specific information about personal identity. This mode of cashless transaction can be preferred for both receiving as well paying. A few examples mobile wallet are Paytm, Mobikwik, Freecharge, Phonepe, State bank buddy, OlaMoney etc.

2) Plastic Money: Plastic money refers to credit cards, debit cards. It is easy to use. Huge amount of money is not needed to be carried everywhere.

3) Net Banking: Internet banking is a convenient way to do banking from ones home or office. People can avoid the queue and delay in the banks. It is time and energy saving. It is secure. Various methods of net are, National Electronic Fund Transfer (NEFT), Real Time Gross Settlement (RTGS) and Immediate

Payment Service (IMPS) etc.

India is one of such countries where 98% of total economic transactions by volume are done through cash as compared to other countries as per TABLE I [7].

The cost of cash transactions in India is to 1.7 per cent of the gross domestic product (GDP) and that is much higher than most developed countries.

Visa estimates that if India reduces its cost of cash from 1.7% to 1.3% of GDP, the potential savings could reach to Rs 70,000 over the next five years.

TABLE I: Countries with amount of cashless transactions

Countries	Cashless Transactions (by volume)
Singapore	61%
United Kingdom	52%
USA	45%
Australia	35%
Japan	14%
China	10%
India	2%

India is on its way to move towards a cashless

transaction economy by minimising the use of physical cash. Promotion of the electronic money instruments, development of financial infrastructure and making people aware of digital transaction can help in digitalisation of transactions. This will help India to move towards cashless economy.

A cashless economy is free from risks, hassles and black money. But it also faces some challenges.

I. OBJECTIVE OF PAPER

- To understand the concept of cashless transaction and to understand current position of India.
- To study various challenges in cashless transactions and various opportunities to make India a cashless economy.

III. Data Methodology

The paper is based on secondary data. The data has been collected from internet from various sources like journals, articles etc.

IV. Challenges

A) Currency domination

The cash circulation in India is very high. Cash in circulation amounts to around 13% of India's GDP. Nearly 98% of transactions take place in cash. Small size companies and workers prefer cash based transactions. They don't have required digital literacy.

B) ATM usage for cash withdrawal only

Nearly 92% of ATM cards are used for cash withdrawals. Only low level of digital payment is done using ATM cards.

C) Mobile internet penetration

Internet connection is much needed today. In India, there is poor connectivity in rural areas. Low rate of literacy and low rate of awareness in rural parts of the country are also major challenges.

D) Inadequate infrastructure

There is a challenge of inadequate infrastructure in terms of ATMs as well as point of sale (POS) terminals. India has only 2.3 Lakh

ATMs and 14 Lakh POS terminals which are not sufficient. Brazil, Australia, France and the UK are way ahead of India. The metro cities have a large number of ATMs, but the number decreases in rural areas. The cost of POS terminals and operating costs of maintaining them are very much high [5].

E) Financial literacy

The literacy rate plays a vital role in increasing the number of cashless transactions. Villages lack proper banking services. Eligible people don't have bank accounts. Illiterate people are afraid to use debit and credit cards because of unsecured connections and fraudulent practices like online money thefts. In addition, another problem is even many literate people don't know how to operate cards.

F) Cyber security

The rate of cyber crime is likely to increase as online transaction rate increases. There will be a need for competent encryption technologies for cyber security issues.

G) Unawareness

The Indian population is unaware of the procedures needed in executing cashless transactions and about the benefits of a cashless economy. It is necessary to spread awareness about cyber-attacks and frauds [5].

V. Opportunities

As the Government of India announced its move towards demonetization in 2016, its impact is being felt across various segments. India's move towards a cashless economy will make a way for new opportunities in the digital world.

A) Small business sector

Small merchants are entrepreneurs who run neighborhood kiosks, stores, restaurants, mini markets and other enterprises. This could be an opportunity to drive the process of financial inclusion, where the poor are more able to access financial services, and enable cashless payment systems to develop.

B) Electronic payment service providers

Demonetization has shifted the focus from cash transactions to cashless transactions. People are increasingly using online applications, where the mode of payment is through the mobile.

Demonetization initiative has been a boon for India's e-payment providers. Paytm reported over 14 million new accounts in November alone. While Oxigen Wallet's daily average users increased by 167% since demonetization began.

So, the cashless payment service providers have a big opportunity in the cashless society as the cost of coins and paper currency production is expensive. So by going electronic that would help government reduce the cost of production.

C) Digital currencies

Apart from internet and mobile banking and credit cards, there are alternate payment options such as digital currencies. There is more transparency in digital currency as compared to cash. Digital currency transactions are fast. The value of transactions per year in India is presently at Rs500 crore, which is led by around 50,000 bitcoin wallets and close to 700-800 bitcoins being traded every day.

D) Economic Growth

India ranked 7th most economic countries in the world in terms of GDP, as per World Bank ranking [8]. India's GDP is around \$2.25 Trillion which is \$16.45 Trillion less than that of USA. If the cashless transactions start to curb the corruption and black money and if there is proper tax management then by 2025 India can be 2nd Economic country in the world.

Online or cashless payments are the only way where the RBI, Income tax department can keep track of all the transactions. That will decrease the number of tax evaders. Cashless transactions can be easily monitored by

Government which will enhance the revenue collection and the development activities.

VI. Prospects and measures

1. The JAM (Jan-Dhan, Aadhar, and Mobile) infrastructure can encourage digital transactions.
2. There are almost 24 crore accounts under Jan Dhan Yojana scheme, 124 crore Aadhar identity cards. There are nearly 90 crore mobile phones and 33 crore internet users are in India. This means that the JAM infrastructure can be used to promote cashless transactions.
3. A large number of government transfers are made through JAM mode. This will help people to get digital transaction awareness.
4. NPCI promoted Aadhaar enabled Payment System, IMPS etc and they have registered big turnover in transactions. Newly launched UPI (Unified Payment Interface) is expected to give a big boost to cashless transactions [1].
5. Numbers of credit and debit cards are increased to 25.4 million and 691.1 million, respectively. As more people start using debit, credit cards and Aadhaar for digital payments, we can see starting of a cashless economy. Can be referred from Table II.
6. RTGS and NEFT volumes increased in 2016 reflecting greater adoption of the system by all segments of users.
7. With increasing mobile banking services, growth in e-commerce and use of mobile payment applications, the use of cash will decrease [1].

TABLE II: Results of the strategic initiatives taken by government

<i>Payment Method</i>	<i>Growth (volume / number of transaction) as of Jan 2017</i>
Mobile wallet	22.8% in volumes and 12.2% in amount of transactions
UPI	124% in volume of transactions and 140% in amount of transactions
IMPS	18.8% in total transactions and 2.08% increase in total number of mobile money Ids (MMID).
Debit cards	1516436.7 Million transactions [4]
Credit cards	1539.2 Million transactions [4]

Conclusion

India lacks infrastructure for a cashless economy. A cashless economy needs digital infrastructure and technology to support it. Government is taking measures to improve overall infrastructure so that more and more people can come into banking net and internet. RBI and National Payments Corporation of India are also trying to make digital transaction very simple and convenient. Increased use of internet and Smartphone will encourage people to move towards cashless transactions. Society also has to play its part. They have to understand the importance of cashless economy and appreciate measures taken by the government.

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