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9. Cashless Economy: Is Society Ready for Transformation?

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Abstract

A Cashless Economy is an economy in which all types of transactions are carried out through digital means. It includes e-banking (Mobile banking or banking through computers), debit and credit cards, card-swipe or point of sales (POS) machines and digital wallets. The paper under study tries to throw light on the rising trend of digital transactions in India being carried out in various cashless modes over the last few years but simultaneously being ourselves making alert of the negative impact of going cashless thereby showing downside of digital India. As the people of India are showing amazing response towards move of digitalization, it is the big indicator of prosperous future for India to be cashless India. So the need of an hour is to spot the weaknesses involved in cashless transactions and work out on them to achieve the vision of Prime Minister Modi's Digital India.

Keywords: cashless, POS, digital India.

"We want to have one mission and target: Take the nation forward – Digitally and economically" ---Shri Narendra Modi

Introduction

Prime Minister, Mr. Narendra Modi launched the Programme "Digital India" with a vision to transform India into a digitally empowered nation and creating a cashless, paperless economy. As per the current status of India, only 7% to 8% of all the payments are taking place electronically. On Nov 8, 2016, a historical date, he talked about making India a cashless economy and on Nov 27 during an election rally in Uttar Pradesh, he again motivated the people of India to become familiar with cashless transactions. On the same day, during his radio Programme "Mann ki Baat", he said: "Learn how this digital economy works. Learn the different ways you can use your bank accounts and internet banking. Learn how to effectively use the apps of various banks on your phones. Learn how to run your business without cash. Learn about

card payments and other electronic modes of payment. Look at the malls and see how they function. A cashless economy is secure, it is clean. You have a leadership role to play in taking India towards an increasingly digital economy". According to the website of cashless India, the Digital India programme is a flagship programme of the Government of India with a vision to transform India into a digitally empowered society and knowledge economy. "Faceless, Paperless, Cashless" is one of professed roles of Digital India.

The ambitious mission of government of India to drive India towards a cashless economy was boosted with the announcement of demonetization on November 8, 2016.

Objective of the study

- To find out benefits in going cashless
- To chalk out the major challenges in making India cashless
- To know the advantages cashless economy.
- To know how far are we from becoming a cashless society.

Research Methodology

This research paper is based on secondary data which were collected from research studies, book, journals, newspapers and ongoing academic working papers which focused on various aspects of cashless economy in India.

What is a cashless Economy?

Cashless Economy refers to a situation where there is a negligible flow of cash within an economy, and all transactions are settled digitally. This is achieved through extensive use of digital payment channels such as NEFT (National Electronic Funds Transfer), RTGS (Real Time Gross Settlement), credit and debit cards, digital wallets, IMPS (Immediate Payment Service), etc. Our Indian Economy has mostly been dependent on paper currency since ages. However, the current Indian Government has seriously been trying to make India a cashless economy. Demonetization was a big step in this direction and significantly promoted the use of digital payment channels over the traditional paper currency. A system where no physical cash is in circulation is a cashless system. Payments are made through credit and debit cards, bank electronic fund transfers or virtual wallets

Is India ready to be a Cashless Economy?

In Favor

- Long before demonetizing 500 & 1000 rupee notes, Indian government is trying to increase cashless transactions through Direct Benefit Transfer Scheme, Jan Dhan accounts etc.
- From the moment higher denomination notes are demonetized, cashless transactions have increased at a rapid rate.
- Though India has a huge proportion of digital illiteracy, using debit card does not require much digital literacy.
- Many state governments are working hard to spread the awareness of digital transactions.
- Indian Government rolled out incentives for going digital in financial transactions. It introduced daily and weekly lucky draws to encourage digital transactions.

Against

- Till the moment 500 & 1000 rupee notes are demonetized, cash transactions constituted 85% among all the financial transactions in India.
- Even after the demonetization move, cash transactions are still the king.
- India has a huge population of digital illiterates. It'll take a lot of time to transform everyone into digital literates.
- No country is a fully cashless economy yet. India is still a developing country, and needs a lot time to transform itself into cashless economy.
- Though no. of accounts have increased drastically after the demonetization move, once the scarcity of new notes is reduced, there is no guarantee that everyone will use that bank accounts.
- With the recent hack of 32 lakh Rupay & Visa debit cards, there is a doubt in cyber security of Indian Banking. Before going for completely cashless economy, India needs to strengthen its cyber security first.

Facts

- 'Sweden' is closest to achieving cashless society. Cash transactions in Sweden constitutes to only 3%.

- M-Pesa created a revolution in 'Kenya'. The usage of M-Pesa is so high that even salaries are credited through it. Cash transactions decreased drastically in Kenya.
- South Korea gives tax incentives for cashless transactions, and could increase the share of non-cash transactions.

Benefits

- **Cost Reduction:** cashless system brings down the cost associated with printing, storing and transporting of cash.
- **Risk Reduction:** The risk of money getting stolen or lost is minimal. Even if the card is stolen or lost it is easy to block a credit/debit card or a mobile wallet remotely. It is also a safer and easier spending option while travelling.
- **Convenient:** The ease of conducting financial transactions is probably the biggest motivator to go digital. With the advent of digital modes, one can avoid queue for ATMs, transact 24*7 and save time. Additionally for service providers, with the emergence of e-KYC, it is no longer necessary to know your customer physically as the payments model has overcome limitations related to physical presence.
- **Tracking spends:** Spending done via mobile or computer applications can be easily tracked with a simple click. This allows users to keep a track of all their spending and manage their budget effectively.
- **Increase in tax base:** Traders, small businesses, shopkeepers, and consumers regularly use cash as a means to avoid paying service tax, sales tax, etc. However, in a cashless economy where all transactions will be done through organized channel, through banks and financial institutions, they can be monitored by the government and proper actions could be taken against the evaders. This will result in more transparent transactions which in turn lead to fall in corruption in the economy of the country.
- **Containment of parallel economy:** In a cashless economy it is easier to track the black money and illicit transactions unlike cash based economy in which money does not come into the banking system. In case of digital transactions it is easy to track and monitor suspicious transactions as all the records are available with the banks.
- **Financial Inclusion:** At present, India's low-income households access credit through informal systems, through relatives or private lenders. Forcing them to shift to cashless

payment platforms instantly formalizes this world of informality and include them in formal economy.

- **Discounts:** A lot of ecommerce websites offer huge incentives in terms of discounts, cash back, loyalty points to the customers for making digital transactions for shopping online.

Yes, India is ready for a cashless economy

- According to TRAI, as on 30 September 2016, 82 out of 100 citizens in India owned a mobile phone. The evolution of the telecom ecosystem, with significant reduction in call and data rates, along with the prices of smart phones, is propelling the shift to a cashless economy.
- The government of India is working dedicatedly to push India towards a cashless economy. With major initiatives such as demonetization, Direct Benefit Transfers, BHIM and many more. The intent is to streamline the economy and curb corruption.
- The government approved for a proposal, under which there would be no charge for BHIM, UPI, and debit card transactions up to ₹2000.
- Government also ran a DigiDhan campaign where 16 lakh lucky winners (users and merchants) were rewarded with prizes ranging from Rs 1000 to 1 crore.
- Further to incentivize behavior change and bring down the cost of digital payments, referral and cash back schemes have also been launched for BHIM where users and merchants receive cash back. Also, initiatives like USSD and the *99# service have ensured that non-Smartphone users are also on board the cashless wave.
- Demonetization has given an impetus to e-wallet services. According to a report "Securing the cashless economy", by Pwc, India witnessed
- 100%: Day-on-day growth in customer enrolment with leading mobile wallets after demonetization..
- The smart phone revolution has led to the emergence of e-commerce, m-commerce and other services, including app-based cab aggregators, who encourage digital payments for use of various services. The value added services such as cash back, bill payment facilities, loyalty points, rewards and ease of use have resulted in surge of such digital platforms. These developments have given rise to a modern payment model.

Conclusion

Though cashless transactions have increased these days, right now India cannot completely become a cashless economy considering its high proportion of digital illiteracy and cash transactions. But Indian Government is working towards increasing the share of cashless transactions, which is a good thing for any economy.

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