

# A Study On Cashless Transactions In India

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## Abstract

A cashless economy is a monetary mechanism in which digital media are used to purchase and pay for goods and services instead of physical currency. The term "cashless economy" refers to a financial system in which electronic payment methods such as debit cards, credit cards, e-wallets, electronic checks, and direct wire transfers between accounts are the norm rather than physical cash. The Indian government claims that eliminating the need for currency would increase economic growth, decrease the likelihood of theft, and make it safer for people to handle money. In addition to reducing corruption related to coinage, cashless purchases may also increase the number of foreign purchasers visiting the nation. In this article, we examine the idea and practice of cashless transactions in India. The advantages and disadvantages of a cashless economy for the general people are also analyzed in depth.

**Keywords:** Cashless financial system, E-Banking, Electronic media, Government

## I. Introduction:



The Reserve Bank of India & Indian Government have promoted different digital payment devices or kinds, like prepaid instruments and cards, in an attempt to reduce the prevalence of physical currency in the economy. The Reserve Bank of India's (RBI) attempts for promoting such newer payment and settlement alternatives are directed toward the achievement of the objective of a "cashless" transactions economy, where physical cash is used almost exclusively for settlement. There is no lack of cash in a cashless transaction economy; rather, it reflects the cultural norms of people who choose to do business only online. These days, monetary transactions often occur digitally. Because of this, it is crucial to foster the growth of online payment systems & related infrastructure.

November 8<sup>th</sup>, 2016, the government banned the circulation of two highest denominations banknotes, 500 rupees, and 1000 rupees. Main goal we must fight the circulation of counterfeit and black money in the economy. Big boost with cashless campaign all high-value cash transactions were unblocked, including card-based and digital payment systems, it suffered because denomination currency was not circulated.

Several initiatives have been initiated by RBI & Indian Government to encourage the widespread use of cashless payment systems. RBI has reaffirmed its commitment to modernizing India's payment system in its June 2016 vision 2018. In order to create a "cash short" society, it is imperative that as many people as possible start making and using electronic payments.

The 5Cs (coverage, convenience, dependability, convergence, and cost) formed the basis for the overarching framework of Vision 2018. Four key objectives, including responsive regulation, strong infrastructure, effective monitoring, and centricity, will be prioritized to bring this vision to fruition. As part of its vision, RBI has laid forth the following initiatives::

- The goal of rules is to reduce use of paper clearing instruments.
- The economy-wide expansion of electronic payment methods is one of its stated goals.
- The organization's stated goal is to expand utilization of Aadhaar into our financial system to its fullest extent possible.

In the 2016 budget, the government included a number of tax incentives for card games. One such action is doing away with service charges for using credit cards and other electronic payment methods.

For the sake of spreading the habit of cashless transactions, an Aadhar-based payment method is a big help.

A seven-person group headed by Mr. Neeraj Kumar Gupta, Chairman, National Task Force for promotion of Digital & cashless Sector, was tasked by ministry to provide recommendations for decrease or elimination of paper cash-based transactions in economy. The technology has migrated to mobile banking, prepared devices, credit and debit cards, online banking platforms, and core banking solutions. The system of electronic payments is also expanding quickly. All of these metrics show that India is steadily but slowly achieving RBI's aim of lesser cash-based economy. Now one must switch to a cashless economy. Demonetization has two goals: removing or avoiding black money from transactions and promoting cashless transactions. You should choose a cashless approach to complete the transaction rather than making a scene by lining up at an ATM. A cashless system is much open since every transactions could be effortlessly tracked down because it leaves a trail of evidence. Numerous people now use innovative cashless payment methods.

## II. Review literature:

**Kumari D (2016)**, Her article shed light upon fundamental idea of cashless transactions & safety concerns. She claims as significance barrier to cashless transactions is inadequate infrastructure. According to a UNESCO report, one of the main obstacles to cashless transactions is illiteracy. According to the economic climate, one of the problems with cashless transactions is hacking.

**Borhan Omar Ahmed Al-Dalaien (2017)** a cashless society is a system in which goods and services are bought and paid for electronically rather than with physical currency. Numerous benefits stem from a cashless economy, including increased sales, streamlined transactions, instantaneous settlement, ease of use, less risk, more transparency, and cheaper overhead costs. While there are numerous benefits, India's cashless policy has number of obstacles including a dearth of ATMs. A lack of internet access, a shortage of internet-capable devices, few banks in rural areas is expensive swipe machines. The result showed as there are no notable advantages of cashless economy for the general populace.

**Gupta, (2017)**, The purpose of this report was to investigate the successes and difficulties encountered by the government in its pursuit of cashless transactions. She explains that the Central Government of India has introduced fortunate grahak yojana & Digi Dhan Vyapar Yojana to incentivize the use of digital payment methods among the country's population. Between January 20 and 27, state of Haryana will have a "cashless week" to encourage use of

cashless methods of payment. The government also plans to have college employees and students help spread word about the aim.

**Kumari and Krishna, Cashless Payment (2017):** The research, "Cashless Payment: A Behavior Change to Economic Growth.2017," analyzes the impact that being cashless has on economies in transition. Based on the research presented in the article, a country's financial stability may improve if it adopts a cashless economy strategy. It seems that considerable progress has been made in raising public awareness of cashless economy while a sizable percentage of population is eagerly anticipating its implementation.

### III. Statement of problem:

The implementation of a cashless transactions system as a follow-up to the demonetization process has had a profound effect on consumer behavior. Consumers in India, who formerly relied almost entirely upon that cash economy, must now adapt to the use of electronic payment systems. Except for a select minority, the vast majority of shoppers now prefer paying with cash when they make a transaction. Consumers are being encouraged to embrace and execute contactless payment for their requirements by government, which has declared that all limits for conventional money transfers with opportunities for electronic transfer would take effect immediately. Given the above, the purpose of this research is to investigate the causes, effects, and implications of the explosive expansion of cashless transactions in India.

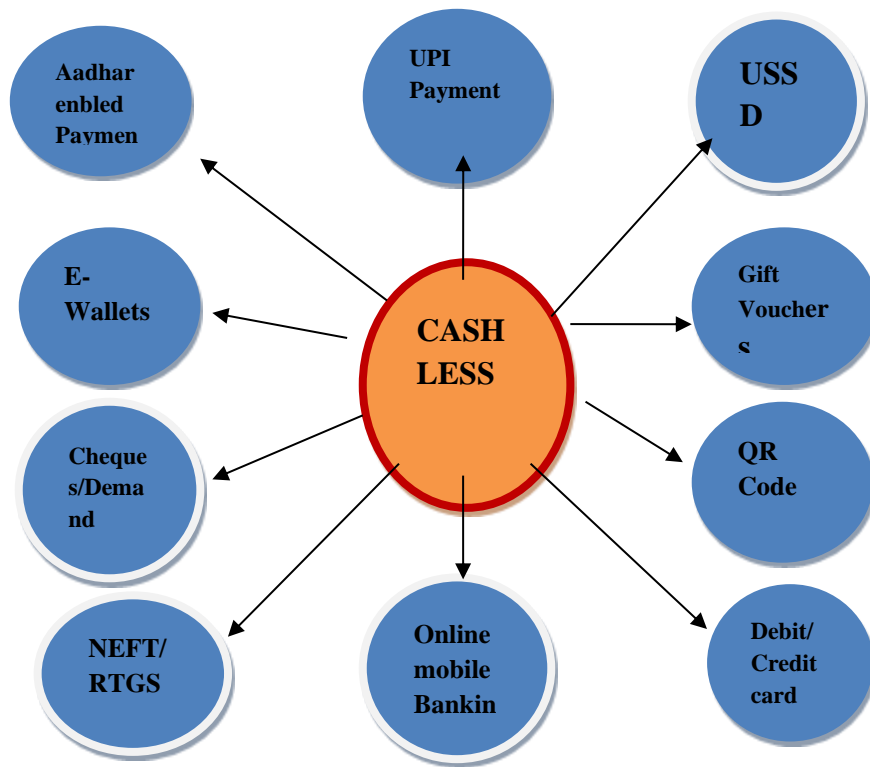
### IV. Objectives of study:

1. For knowing modes of cashless transaction
2. Comprehending advantages and disadvantages of cashless transaction
3. For studying India's growth in cashless transaction

### V. Research methodology:

The current investigation is mostly descriptive. Investigation was conducted using secondary data that were collected made available. Secondary information was gathered by numerous resources also from unpublished & published journals, newspapers, books, related websites etc

## Modes of Cash less transaction:



### 1. Cheque:

When it comes to non-cash transactions, the check is among old options. That strategy is standard knowledge among experts. A check is written out to the recipient in the amount specified. Bank receives the check and deposits it. When a customer pays with a check, the transaction is documented in bank's records as payment in full. However, there are times when a check is not honored because of an issue such as an incorrect signature or insufficient cash. We may circumvent these problems by switching to another kind of cashless payment.

### 2. Demand draft:

The demand draft is a primitive form of electronic payment. You may accept payments from anybody with complete peace of mind while using this method. Since the bank endorses a demand draft, it can never go into default. A major drawback of DD and checks is the need to physically visit the bank in order to deposit a check or request a draft. Time is lost waiting for a check or money order to clear.

### 3. Online transfer-NEFT or RTGS:

Online transfers with NEFT or RTGS represent the third easiest option for cashless transactions. You'll need access to a bank with online services if you want to send or receive money online. When compared to traditional methods of payment like checks and money orders, online transfer through NEFT or RTGS is noticeably more efficient. Funds may be sent online from any location with access to the internet.

**4. Credit card or Debit card:**

This is the electronic equivalent of handing over money. The number of people using plastic was low in India. However, after demonetization, credit and debit card use has increased. This mode of payment is limited by the fact that the retailer must have a point-of-sale (PoS) swipe card capability available.

**5. E-Wallet:**

The electronic wallet is next step in the evolution of cashless transactions. The electronic wallet may be used to buy everything from groceries to plane tickets. Both consumers and retailers using E-Wallets must have access to the internet and a smartphone. After signing up for an e-wallet service, such as the ubiquitous PayPal, users connect their payment method (often a credit or debit card) to their e-wallet id. E-wallets are convenient for making instantaneous online payments or sending money to others. You can't get much easier than this.

**6. Mobile Wallets:**

A mobile wallet is the next step toward cashless payment systems. When utilizing a mobile wallet, you don't have to enter your debit/credit card information or online banking credentials. Simply add funds using IMPS and utilize them on the go. The app for the mobile wallet is available for download on the play store. Mobile wallets are becoming more popular, with examples including Paytm, Pay money, Mobikwik, etc.

**7. UPI Apps:**

UPI, or the Unified Payments Interface, is mobile payment system which enables a number of different types of financial transactions to be performed through a user's smart phone. With UPI, you may send and receive funds using a digital payment address instead of a physical one and without providing any financial data. UPI payments may be accepted by registering with a bank. To take UPI payments, the retailer will need a bank account, just as a PoS machine does. SBI Pay, the Union Bank UPI App, Phonepe, etc. are just a few examples of UPI apps.

**8. Gift card:**

Gift cards are the next option for making a cashless purchase. A prefabricated card that may be acquired from a store or bank. A gift card may be used at any time to make a purchase from a particular retailer for predetermined amount of money stored on the card.

**9. Aadhaar enabled Payment System (AEPS):**

It's a great alternative to using hard currency for purchases. Similar to a micro-ATM, AEPS allows users to make purchases using only their smartphone and a fingerprint scanner. To take use of this service, you must first connect your Aadhaar card to your financial institution's database. With AEPS, you may do things like withdraw money, deposit money, move money from one Aadhaar to another, and more..

**10. Unstructured Supplementary Service Data (USSD):**

If you do not have access to a smartphone or the internet, you may still utilize the cashless USSD option. Free-Form Added-On Support Banking with the touch of a button Simply dialing \*99# from your mobile device will give you access to this feature. You have access to everything a person with a smartphone and an internet connection can accomplish. You may use USSD to make payments at almost all major banks, including SBI, ICICI, BOB, Axis Bank, & PNB.

**11. BHIM APP:**

Use this recently released app to move money across bank accounts. It is trustworthy and protected by three-factor made using either the user's mobile number or the Aadhaar card number. Although this app utilizes the UPI technology, clients don't need to download numerous bank mobile applications. They only need to download the BHIM App.

#### 12. QR code:

Commonly abbreviated as "QR," it stands for "rapid reaction. As a two-dimensional code, it consists of square grid of black squares arranged in a certain pattern. QR codes are scannable by imaging devices like Smartphone cameras.

To make a cashless purchase, a customer need just utilize a QR code reader for scanning merchant service's QR code.

### Advantages and Disadvantages of Cashless transactions.

#### Advantages of Cashless transactions:

1. Businesses may benefit from accepting electronic payments since it allows them to reach customers in more remote regions.
2. Property prices will fall if the flow of black money is restricted since a large portion of that money is deposited as in real estate market.
3. Third, the increased openness of electronic payment will improve trust. Most cashless societies don't have corruption since it's easy to track and record every transaction.
4. Using the Internet to make purchases is convenient, and it will reduce the need for individuals to carry around large amounts of cash.
5. 5. The vast majority of election funds come from illegal sources. There will be no way for political groups to use thousands of dollars in untraceable cash for electoral reasons if all transactions are conducted electronically. Votes won't be able to be bought with money anymore. In the end, genuine democracy will triumph.
6. Maximum tax revenue will be collected, which may then be used to help the economy's poor and disadvantaged, as well as fund infrastructure projects.
7. Since less fake money will be made, terrorists will be less likely to be funded.
8. Especially helpful in large cities and other busy areas, this will reduce the frequency and severity of pick pocketing and other forms of cash theft.
9. With online billing, you can track your spending and make informed financial decisions by seeing your whole payment history.
10. With the advent of electronic payment systems, there will no longer be a need for paper money, which saves 27 billion annually in printing costs for paper notes, coin, & upkeep.
11. One of the incentives offered by the government to encourage digital transactions is the recent remission of goods and services tax on debit transactions up to Rs 2,000. As a result, several discounts and freebies have been implemented. If you reap the benefits of them now is an excellent opportunity to improve your savings.

#### Demerits of Cashless transactions:

1. The idea of making online payments is still unavailable to a large portion of the population, especially in rural areas and in certain metropolitan neighborhoods.
2. Second, many people in India live in remote places where they lack access to reliable internet and credit card processing options.
3. Third, some businesses still only accept paper currency and not debit or credit cards since people in rural areas are not tech savvy enough to know about these alternatives. It becomes extremely

challenging for customers to make purchases using cards at such establishments. Because they are unable afford to put money into digital infrastructure, most small shops in India still only accept paper currency.

4. Given the freedom individuals have with their cash, they are likely to waste it on unnecessary purchases.
5. Replacing a lost debit or credit card is a time-consuming process
6. internet purchases may lead to serious and difficult issues like hacking and cyber theft. To prevent funds from falling into the wrong hands, cyber security measures must be implemented.
7. There are occasions when, even in major metropolitan areas, online purchases cannot be done due to inadequate internet or network connections.
8. Identity theft is a greater concern than any of the other risks listed at No. 8. "Even highly educated individuals run the danger of falling in phish traps since our culture is not adapted to digital transactions," adds Nagpal. As more people put their faith in the digital platform, the danger of hacking will increase along with the growing rate of online fraud.

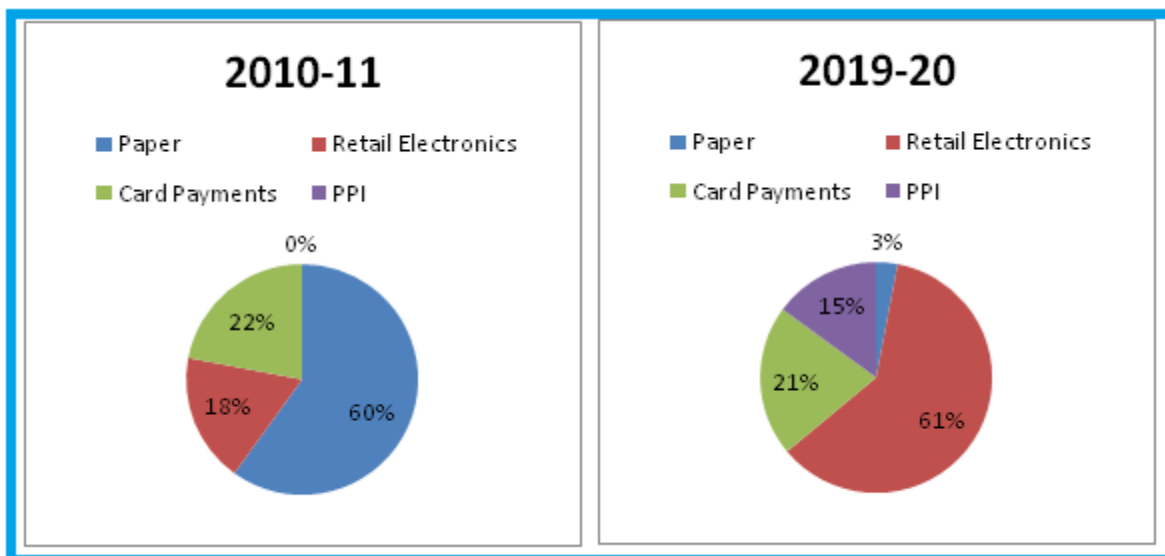
### India's Growth in cashless transactions:

The introduction of credit cards in India in the 1980s marked the begging of digital commerce. The number of people using mobile phones, the internet, and digital payment methods all increased significantly throughout the nation. Newer firms and applications emerged in response to the increasing need.

Since 2010, frequency of cashless transactions in India has increased dramatically. A total of 4.98 billion cashless transactions worth Rs 96 lakh crores (about US\$1.3trillion) were conducted in the nation between FY 2010 and FY 22. There was a huge increase in activity in FY 2020, with 16.23 billion trades occurring at a total value of Rs.3,435 lakh crore (about US\$45.9 trillion). A 43% CAGR in value and a 12.54% CAGR in volume was achieved between FY 2010 and FY 2020.

Previously, only RBI and payment systems operations (POS) provided the payment systems with a total of five payment options. Users can now choose from a number of additional payment options that are controlled by the NPCI. In FY2010-2011, the vast majority of transactions were processed manually, using paper checks. As the population, economy, literacy rate, & internet use all improved, cash transactions became a smaller percentage of total transactions, while the number of electronic payments skyrocketed. The following pie charts compare the percentage of shares owned via various retail transaction methods in Fiscal Years 2010–2011 and 2019–2020.

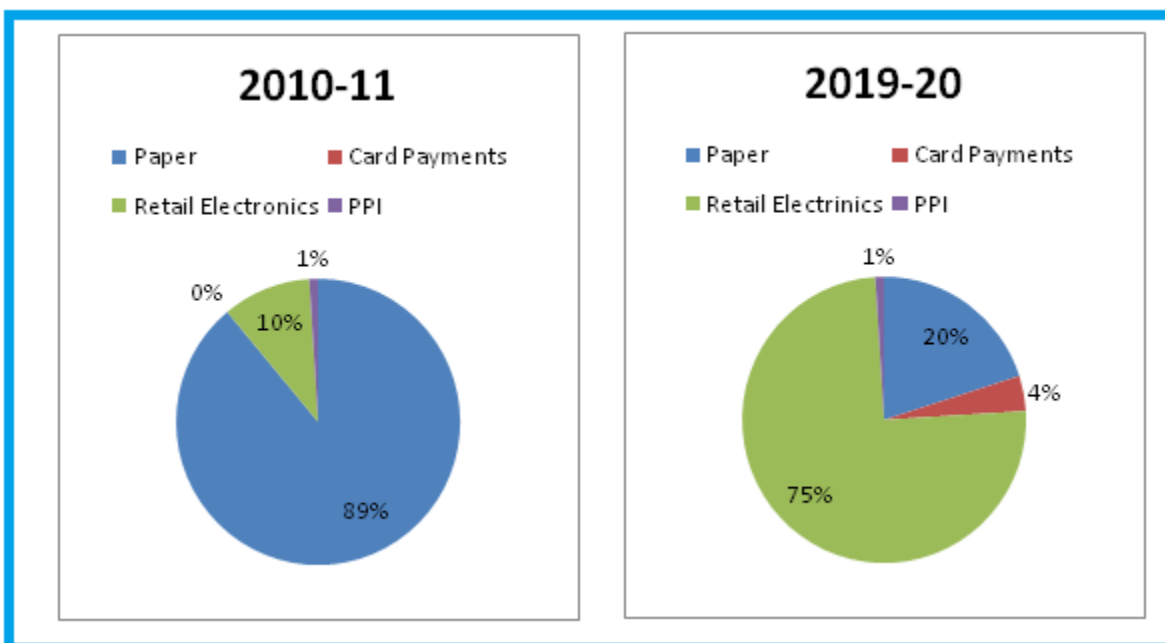
### Retail Transactions in terms of Volume during FY 2010-2011 and FY 2019-2020



**Diagram:** Retail Transactions in terms of Volume during FY 2010-11 and FY 2019-20

From the data shown above, it is clear that during FY 2010-2011, paper payments were the most popular means of transaction, accounting for 60% of all payments while retail electronic payments, card payments, & PPI payments accounted for the remaining 40%. Even though digitization in India was on the rise at the time, most people still preferred to pay using cash. During FY 2019-2020, digital payment method represented for 97% of total payments while paper-based payments accounted for just 3%, indicating a clear preference for electronic transactions.

#### Retail Transactions in terms of value during FY 2010-11 and FY 2019-20

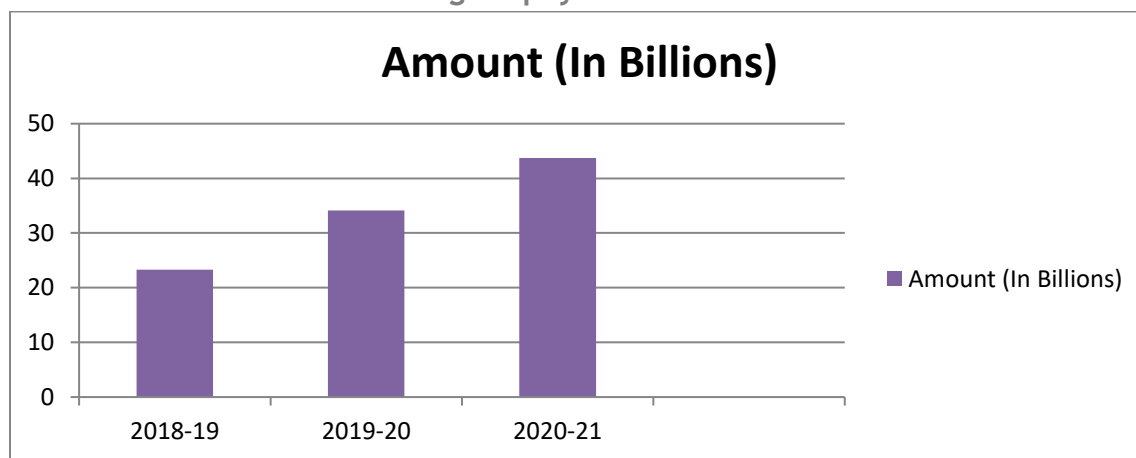


**Diagram:** Retail Transactions in terms of value during FY 2010-2011 and 2019-20

The accompanying graph shows the value of transactions conducted on shares owned by different payment methods for fiscal years 2010–2011 and 2019–2020. In the period between FY2010 and FY2022, paper transactions accounting

for 89% of the total value, with other electronic methods like retail electronic, card transactions, & PPI accounting for the remaining 11%. During FY 2019–20, digital forms of payment accounted for 80% of value of transactions, while paper transactions account for 20%. Following a year of growth of 44.2%, the RBI reports that volume in the payment systems increased by another significant 26.2% in 2020-21.

### Increase in Volume of total digital payments



**Figure: Increase in Volume of total digital payments in past three years**

In the next two years, the overall volume of digital payments is expected to rise by 88%, from \$23.3 billion in FY 2018-19 to \$43.7 billion in FY 2020-21. In FY 2020-2021, the percentage of payments made in a form other than cash rose to 98.5%, from 97% in FY 2019-2020. Proof of current and potential success of digitization in India.

### ➤ Measures of Indian Government for cashless Indian Economy:

#### 1. The Demonetization:

Black money still exists despite the demonetization campaign. But it had pushed India in the direction of a cashless society. Making India a cashless economy has evolved into a radical “revolution”. After demonetization, paytm saw daily usage increase from 3 million transactions on average to 5 million. In addition, Paytm’s overall traffic has increased by 700%. Additionally within the first two days following demonetization, a 1000%rise in the amount of money added to its account. Additionally, Ola money’s e-wallet was growing by 1500%.

**2. Pradhan Mantri Jan Dhan yojana:**

The year 2014 saw the introduction of one of the world's most ambitious financial inclusion programs. The goal of Pradhan Mantri Jan Dhan Yojana is to make banking accessible to all Indians. It takes a holistic strategy to ensure that all citizens of the nation have access to banking services and achieve full financial inclusion.

The plan guarantees people have access to a wide variety of financial services, including the opportunity to save money, open bank accounts, get loans based on their actual needs, and join retirement plans. It has been helpful in getting banks to serve low-income people.

**3. Direct Benefit Transfer (DBT):**

To ensure that citizens of India have access to government subsidies and other payments, the government established Direct Benefit Transfer Scheme. DBT system is being implemented in a variety of welfare programs, including those that provide LPG subsidies, old-age pensions, scholarships, MGNREGA, and more. And all of that work finally got digital banking into India's rural areas..

**4. Unified Payment Interface (UPI):**

A mechanism called the Unified Payment Interface (UPI) connects many bank accounts to a single mobile application. In one hood, it combines a number of banking functions, smooth funding route,& merchant payments. And it is this technology that streamlines the process of conducting digital transactions. In less than three years, there were no cashless transactions using UPI, but now there are 754 million each month.

**5. Digishala- Educational5555 TV Channel for Digital Payments on Doo Darshan:**

Digishala, a complimentary Doordarshan DTH channel, has been created by government of India to educate and teach citizens about the many benefits of using digital payment methods. UPI, USSD, AEPS, electronic wallets, debit cards, and credit cards are all explained. The program will spread the word about these alternative digital payment methods to the rural people of India. Additionally, it will undergo the change to a cashless economy.

**6. Unstructured Supplementary Service Data (USSD):**

All consumers are familiar with the \*99# payment service, which operates on the USSD channel (unstructured supplementary service data). Making use of the inherent mobility of modern mobile devices, it enables mobile bakery transactions. For USSD-based mobile banking, a data plan is not even necessary. And this state-sponsored effort aids in bringing previously unbanked members of society into the fold of conventional financial institutions.

**7. Aadhaar Enabled Payments System (AEPS):**

The \*99# payment service, which is available on the USSD channel, is well-known to all customers (unstructured supplementary service data). It makes possible bakery transactions on the go by capitalizing on the portability of contemporary mobile devices. A data plan is unnecessary for USSD-based mobile banking. And this government-backed initiative helps bring the unbanked in fold of established banking systems.

## Conclusion:

The research shows that moving toward a cashless economy is a significant and positive policy choice on the part of the Indian government. A cashless monetary system is widely supported by the general public. The primary issues with the functioning of cashless payment in India are cybercrime and unauthorized access to consumer data, although

it helps fight against significant illegal or immoral activities in economy including terrorism, extortion, financial fraud, etc. Accordingly, it is crucial to fortify internet security in order to forestall malicious activity. There is a significant amount of risk and difficulties associated with the implementation of cashless transactions for both customers and small businesses. The major cause of this is low literacy rate in rural regions. The government has to learn more about the benefits of using cashless payment systems. The government makes an effort to increase awareness among consumers about potential dangers. Cashless transactions have contributed to the growth of the Indian economy. Therefore, everyone has to be able to make and receive digital financial transactions. The government should sometimes put more resources into financial literacy initiatives to raise public awareness of the advantages of using electronic payment methods.

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