

**An Economic Transformation From Cash Rich To Cashless:
A Study Of Indian economy****Praveen Kr. Sharma**Assistant Professor, Amity Business School,
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Email: pksharma@lko.amity.edu**Abstract**

India has traditionally been a country troubled by money laundering, illegal financial activity, and out-of-control inflation. To change from this handicapped system into an economic leader of the 21st century, India must have an economy that's less reliant on cash, and more fluid with its payment methods. With the introduction of electronic banking, online transactions and mobile banking in India, this has paved way for a new era of development where the use and demand for physical cash would be gradually declining.

The Indian government introduced the cashless system of payment with the objectives of reducing corruption, black money, terrorism funding, revenue leakages, high cost of processing cash and promoting economic development through effective financial intermediation.

The paper is an attempt to examine electronic system of payment and their implication in cashless economy. This paper presents views of different authors, that the cashless economy is the catalyst for economic development and having the great importance to increase the efficiency of system.

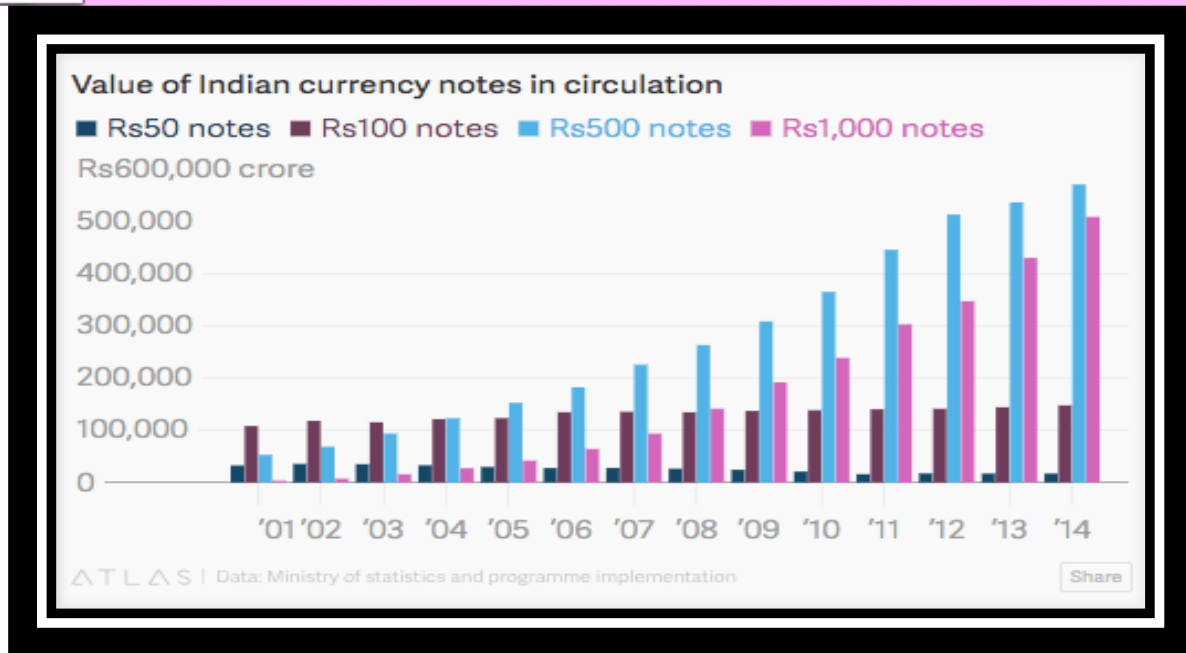
Key Words: Cashless, Digital payment, Unified Payments Interface, e-wallet

Introduction

On November 8, 2016 the government of India announced its decision to discontinue the legal tender status of Rs 500 and Rs 1000 notes. The original objectives were stated as: eliminating fake currency; inflicting losses on those with black money; and disrupting terror and criminal activities. But the actual objective was to: enabling growth in bank credit, turning India into a cashless economy.

Now the big question arises "what is cashless economy?" A cashless economy is a system where any type of money transactions are done through digital means like debit cards, electronic fund transfer, mobile payments, internet banking, mobile wallets, and other newly evolved payment channels, this will leave very little scope for flow of hard cash in economy.

The biggest problem with India suddenly removing 86% of its currency from circulation without having an adequate supply of new notes ready to take their place is that fact that India is more reliant on cash than almost any other country on earth. Suddenly, hundreds of millions of people were left without the means to engage economically, to buy the things they wanted and needed, and myriad businesses were left without a readily available mechanism to receive payment for their goods, to buy supplies, or pay their staff.

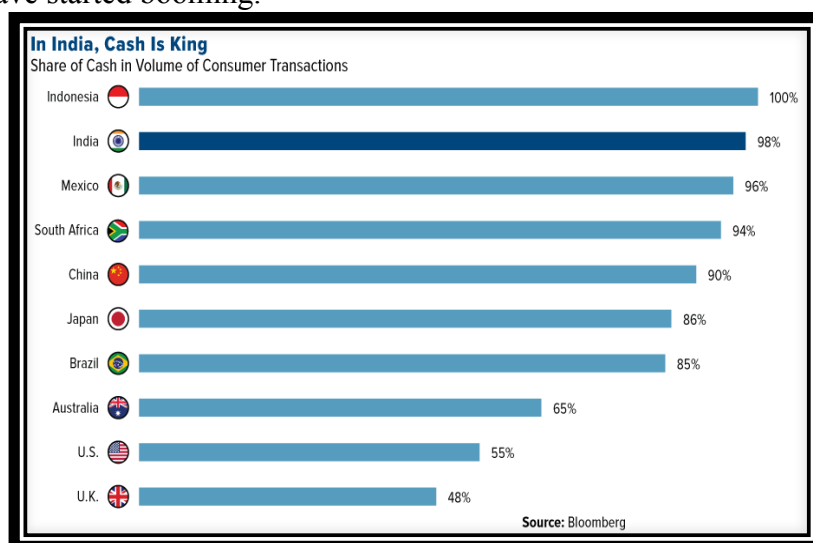


Source: Ministry of Statistics and Programme Implementation

India was an incredibly cash-centric economy. Cash accounted for upwards of 95% of all transactions, 90% of vendors didn't have card readers or the means of accepting electronic payments, 85% of workers were paid in cash, and almost half of the population didn't even have bank accounts. Even Uber in India accepted cash — the only country in the world where this option is available — and “Cash on Delivery” was the preferred choice of 70% of all online shoppers.

By temporarily turning off the engines which drove the cash economy, India hoped that more people could be brought into the fold by using track-able and taxable digital financing vehicles, like debit cards and e-wallets.

India is currently in the middle of an all-out movement to modernize the way things are paid for. New bank accounts are being opened at a heightened rate, e-payment services are seeing rapid growth, cash-on-delivery in e-commerce has crashed, and digitally-focused sectors like the online grocery business have started booming.



Source: Bloomberg

The lack of cash in the economy combined with the buzz around electronic payments systems has also sparked some very innovative solutions. The farmers' markets of state Telangana began experimenting with their own electronic payment system where customers with Aadhar-linked bank accounts could buy vegetables using tokens which could be purchased via debit cards at specialized kiosks.

There are various payment methods that have been used to purchase goods and services starting with the trade by barter. The trade by barter method of transaction has been the foundation for the introduction of money and coins to solve the problem of double coincidence of wants and divisibility faced by trade by barter. The use of money/coins was introduced after the use of trade by barter method, and it has solved various challenges associated with trade by barter, but the use of money as an exchange medium has its own challenges and dis-advantages and can still be replaced with a better payment system-the cashless policy/banking.

Ever since Indian government's demonetization announcement, there have been sudden spike in both app downloads & merchant registrations. This spike is now coming from all cities, big and small, pan-India, consisting of small merchants like vegetable vendors, Kirana shopkeepers [small convenience stores], street vendors, rickshaw drivers, taxi's etc., who've signed app for the merchant payments service.

Reserve Bank of India data show that the government-backed Unified Payments Interface logged 358,000 transactions in the first nine days of December 2016, shooting past November's 287,000 total, as some Indians sought to circumvent the cash shortage that followed the government's surprise graft-busting move of demonetization.

The Indian digital payments industry is set to grow 10 times by 2020. According to a survey by Google and Boston Consulting Group (BCG), around 66% users have cited convenience as the primary factor for making digital payments. Here are the key findings:

- \$500 Billion – Indian digital payment industry by 2020
- 15% - India's GDP to flow through digital payments
- 50% - Indian internet users to use digital payment by 2020
- 90% - Consumers use digital payments for online and offline transactions
- 50% - Persons-to-merchant transactions expected to be under Rupees 100
- 60% - Digital payments value to be driven by physical points-of-sale like grocery and unorganized retail
- Top 3 use cases – 1) online shopping, 2) payment of utility bills, and 3) buying movie tickets
- Barriers to digital payments: 1) habit to use cash – 68%, 2) complexity of using – 55%, 3) lack of compelling value proposition – 48%, 4) inertia of non cash methods – 33%.

Different tools for cashless economy

1. Cheque/ Demand Draft

The cheque is one of the oldest methods of cashless payment. It is a known method to everyone. In this method, you issue a cheque for the specific amount to someone else. The cheque gets deposited in the respective bank. The bank processes a payment through a clearing house.

The entire transaction done through cheque gets recorded and there is a proof of payment. However, there are instances where cheque payments get dishonored due to signature mismatch or insufficient fund. In order to avoid such issue, you can use other cashless payment options.

Demand draft is another rudimentary way of cashless transaction. It is a safest option to receive payment from anyone. Demand draft (DD) never gets defaulted as it is signed by the banker. The disadvantage of DD and cheque is you need to visit a bank in order to deposit cheque and demand draft. The clearance of cheque or DD takes additional time.

2. Online Transfer- NEFT or RTGS

The third simplest method for the cashless transaction is online transfer using NEFT or RTGS. In order to do online money transfer, you need internet banking facility. Online transfer using NEFT or RTGS is comparatively faster than cheque or DD. Online transfer can be done from anywhere using internet facility.

3. Credit Card or Debit Card

Credit card or debit card is another cashless payment method. The usage of credit card and debit card was limited in India. However, usage of credit card and debit card is increasing now. The limitation of this payment method is an availability of swipe card facility (PoS) at merchant end.

4. UPI Apps

UPI is a mobile payment system which allows you to do various financial transactions on your smartphone. UPI allows you to send or receive money using virtual payment address without entering bank information. Merchants can enroll with banks to accept payments using UPI. Like in the case of a PoS machine, the merchant would require a current account with a bank to accept UPI payments.

The examples of few UPI Apps are SBI Pay, ICICI Pocket, Axis Pay UPI App, Union Bank UPI App, PNB UPI, PhonePe, TranZapp etc.

5. Point of Sale (POS)

This facility of cashless transfer is primarily useful for shop owners or businesses to receive payments. Customers are turned down for lack of change or because of uselessness of 500 or 1000 denomination notes. But this affects businesses adversely as much as it affects customers.

Therefore, shop owners must avail POS services. This is the most common type and available for legal, recognized and tax-paying shop owners easily. Broadly, there are three types-

- **Physical POS** – The customer simply swipes the credit or debit card at merchant establishment and/or enters pin to pay.
- **M-POS** – Mobile POS are used to transfer money from the card holder to the seller by means of the seller's phone. The mobile swiping device attached to the seller's phone is a classic example of this type. Once attached, the customer can swipe the card on this device and the cashless transfer is initiated. The customer email and phone number along with signature on the recipient's phone completes the transaction.
- **V-POS** – In Virtual POS or V-POS, cashless transfer is done by simply scanning the unique bar code on the recipient machine. The required money is transferred securely transferred from the scanning to the scanned machine holder's account.

6. E-Wallet/Mobile Wallets

E-wallet is next cashless payment option. E-wallet can be used to purchase products starting from grocery to airline tickets. In order to use E-wallets customer and merchant, both require a smartphone with active internet connection. The most popular example of E-wallet is PayPal. Apart from PayPal, you can also use Payoneer, Transferwise, Skrill, and PayZa.



After registering for E-wallet you need to link your credit card or debit card with your E-wallet id. You can use e-wallet for fund transfer or online shopping. It is a simplest cashless method.

The next cashless payment method is a mobile wallet. You do not need a debit card, credit card or internet banking password for making payment using a mobile wallet. Just load money in your wallet via IMPS and use it on the move. You can download mobile wallet app from play store. Few examples of mobile wallets are Paytm, PayUmoney, Oxigen, Lime, MobiKwik etc.

7. Gift Card

The next cashless payment method is a gift card. Gift Card is a readymade card and can be purchased from a merchant or from the bank. The gift card is loaded with a fix cash amount you can purchase any item from the specific vendor by using a gift card.

8. Aadhaar Enabled Payment System

Aadhaar Enabled Payment System (AEPS) is one of the best cashless payment methods. AEPS is like Micro ATM it uses smartphone and a finger-print scanner for the transaction. In order to use this facility, it is mandatory to link your Aadhaar card to your bank account. You can use AEPS in order to perform transaction like Aadhar to Aadhar fund transfer, Cash withdrawal, Cash deposit etc.

Initiative for cashless economy

Private initiatives

Paytm

Paytm is by far THE MOST popular e-Wallet in India. Reserve Bank of India approved and authorized, this is one of the most versatile mobile wallets present in India. Only recently Alibaba – the biggest Chinese ecommerce company bought a certain stake in Paytm. Paytm is today a \$4 billion company and offers its very own ecommerce platform too. It not only allows online payments but has come up with offline payment options also where there is no need for an active internet connection to transfer money. It can be done simply by scanning a QR code or also by using an OTP which is generated right within the app. We are a big-time fan of Paytm and use it on a daily basis. Paytm has grown so much that RBI has actually given Paytm a license to set up a payments bank. This means that Paytm may soon be offering savings and current bank account, issue debit cards and offer internet banking.

MobiKwik

This e-Wallet has been another major player in the e-Wallet ecosystem. It also offers a host of payment options and has partnered with many popular and well-known brands in market such as Domino's Pizza, Big Bazar, Pizza Hut, eBay, Jabong, ShopClues, Naaptol, MakeMyTrip, Pepperfry, BookMyShow and more. This e-Wallet too has Reserve Bank of India authorization and license, making it one of the most trusted mobile wallets present in Indian market.

Oxigen Wallet

Claiming to have over 20 million user base, this mobile wallet is one of the most popular mobile wallets operational in India. Just like MobiKwik and Paytm, Oxigen Wallet is also RBI approved and it actually claims to be the first non-bank wallet which has managed to tie up with National Payments Corporation of India or NCPI to allow instant money transfer. This means that money transfer is one of the strongest features of the wallet. One thing you should know about its money transfer feature is that it has tied up with NCPI to allow instant money transfer. So, money



transfer can take place in a ziffy. The maximum allowed money transfer in a single transaction is limited to only INR 5,000 and in a month, no more than INR 10,000 can be transferred.

Citrus Wallet

This wallet comes directly from the house of Citrus Pay – a popular payment gateway. Movies, dinners and drinks, bill payments, money transfers – everything with only a few taps, Citrus Wallet has managed to receive license from Reserve Bank of India. Boasting a network of 21 million user base, Citrus Wallet is feature rich and it even allows splitting bills with friends (just in case you need to).

ItzCash

Authorized by Reserve Bank of India, ItzCash is a mobile wallet which is operated by Itz Cash Card Ltd. Part of Essel Group, which is conglomerate of \$2.4 billion dollars' business, ItzCash offers a holistic payments solution with secured money transfer option to bank accounts. It allows a host of digital transactions like balance transfer, prepaid mobile recharge, movie tickets purchase, railway ticket booking and more.

Airtel Money

If you are using a mobile phone in India, you have heard the name 'Airtel'. Yes, it is one of the leading telecom companies in India and it has launched its very own e-Wallet application. Online shopping, money transfer to bank accounts and contacts, performing mobile phone recharges, booking train tickets – Airtel Money has some neat feature but it is not really as versatile as Paytm, MobiKwik etc. It comes with an interesting feature of splitting bills. In case you do not want to use debit card, credit card or net banking for loading cash to Airtel Money account, you can carry cash to Airtel Relationship Center or Airtel Money outlet and hand over cash to the person on counter and give your mobile number. That's all! That person will upload money to your Airtel Money account.

Jio Money

Jio Money from Reliance Jio Infocomm Ltd. is in its nascent stage. It has a long way to go. It allows very basic wallet operations like transferring money, accepting money, paying bills. One of the eye-catching features of the app is that it offers various discounts and offers from various brands. That's all. Not much. Possibly it will grow over time but again, it may be just lost unless it ramps up its services quickly and come at par with Paytm, MobiKwik, etc.

mRupee

Many of you may not have even heard of this wallet but it actually exists and it is owned by a fully owned subsidiary of Tata Teleservices Limited. This wallet has also received authorization from Reserve Bank of India. It allows transferring money to various bank accounts. It allows payments to merchant outlets, recharging prepaid phone numbers, paying utility bills etc. This too is not as diverse as Paytm or Freecharge or MobiKwik. It is a relatively new player in market and just like Jio Money, it has a long way to go.

Vodafone M-Pesa

From the telecom giant – Vodafone, M-Pesa is one of the primary players in mobile wallet world. However, despite the fact that it comes from Vodafone, the wallet has failed to leave a mark like the popular ones of the likes of Paytm, Freecharge, MobiKwik etc. DTH recharge, mobile recharge, transferring funds to bank account, utility bill payment etc. are some of the common features that you can find in M-Pesa. But, what makes it unique? It comes with IMPS system built within the app which allows sending money to a bank account or to a mobile number. However, Vodafone will

actually charge quite a lot for such transfers. For every 2,000 rupees' transfer, you need to pay 38 rupees to Vodafone. That's costly!

Axis Bank Lime

This e-Wallet comes from bank and hence, it actually comes with a combo package. What does that mean? It means that you can use it not only for a host of digital transactions like the ones we have already discussed but also, you can enjoy the benefits of mobile banking. Yes, even mobile banking has been integrated into this app. What about its security? Well, Axis Bank is one of the most popular banks in India and it has come a long way to provide excellent banking services to millions of Indians. Any bank that operates in India needs RBI approval and hence, Axis Bank Lime is basically authorized and licensed by RBI. Coming to the mobile wallet part, it allows utility bill payment, mobile recharges, ticket booking, etc. It even has a neat feature of analyzing spending habits and also, you can set and manage goals towards saving money.

ICICI Pockets

Created and run by ICICI Bank, Pockets is another highly popular digital wallet. This digital wallet is powered by VISA. It is not limited to just users of a single bank, i.e. ICICI Bank. Actually, user of any bank can use this wallet and carry up to 20,000 balances in the account. It comes with a unique feature of applying for a saving account with ICICI bank. This savings bank account will allow you to maintain balance, earn interest on the same and even withdraw cash using the account. This savings account is known as Pockets Savings Account. A pocket has 60,000 merchants onboard. This means that users of this wallet can actually enjoy a wide range of products and services on a daily basis.

HDFC PayZapp

If we look at the app itself, we mean, how well the app has been built, it is pretty solid and fewer bugs compared to some other apps in market. However, when we come to the services offered, HDFC PayZapp is not that great. It being a mobile wallet actually allows basic things like bill payments, mobile recharges, DTH recharge, etc. It allows shopping as well from ecommerce sites and it actually allows you to browse products from ecommerce companies directly from its own interface. Though initially it was designed only for customers of HDFC Bank, it has now been opened for customers of all banks.

SBI Buddy

And, who has not heard of the name State Bank of India. Yes, this bank also offers a complete e-Wallet app for those who love to use digital wallets. Available in 13 languages, this wallet allows sending money, asking formoney, recharging mobiles and DTH services, paying utility bills, booking cinema tickets, hotels and flights etc. One of the best parts of SBI Buddy is that you can actually supercharge your Buddy account by enabling internet banking. Once internet banking is enabled, you can actually maintain a balance of 50,000 rupees in your wallet, carry out transactions of up to 50,000 rupees a day, carry out monthly transactions of up to 100,000 rupees a month. However, you need to be an SBI customer to have such high limits. Just in case you are not an SBI customer, you can check out the balance limits here.

Conclusion

Through cashless and digital payment policy government of India having ambitious objective to reduce corruption and black money, in this process Indian government introduced various digital platforms for payment, incentives and facilities for promoting digital transactions. India is currently in the middle of an all-out movement to modernize the way things are paid for. New bank accounts are



being opened at a heightened rate, e-payment services are seeing rapid growth, cash-on-delivery in e-commerce has crashed, and digitally-focused sectors like the online grocery business have started booming. But with negligible internet penetration in the rural areas, habit to use cash, complexity, lack of compelling value proposition, inertia of non-cash methods, incentives/offers from other methods, fraud/hidden charges, reach, no meaningful electronic security and epileptic power supply what infrastructure does the Indian Government hopes to build this cashless economy on? Despite the challenges and issues raised, e-payment would gradually penetrate in the economy and reduce the cash and carry syndrome that is in vogue.

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