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Problems and Prospects of Cashless Economy in India

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Abstract

Today all the countries of the world are inclining towards cashless transactions due to the lots of benefits of cashless transactions to economy. A wave of cashless society is in progress across the globe in recent years. Indian government is also trying hard to become a cashless society. On 8th Nov. 2016 Prime Minister of India Mr. Narendra Modi announced ban of big notes. The step was taken to curb black money and to become cashless economy.

Literacy rate and slow internet speed are the biggest hurdles in becoming cashless economy for India. Apart from these reasons there are some other serious problems which have been discussed in this paper. A modest attempt has been made to analyze the problems and prospects of cashless economy in India.

Key words: Cashless Economy, Black money, Demonetization, Plastic Money, Parallel Economy

Introduction

A Cashless economy can be defined as the economy where most of the financial and economic transactions are done with the help of digital and virtual means i.e. online payments, credit and debit cards, virtual currency etc. and physical forms of money i.e. banknotes and coins uses are minimize. Today all the countries of the world are trying to become cashless because of its large benefits to the economy. In India where the literacy rate and technological knowhow is

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not satisfactory, there are so many problems in doing cashless transactions. Though government is trying to implement it fully and wants to make India cashless society because of benefits to economy in long run. Indian government's decision to ban big notes on 8th Nov. 2016 was a sign that how Indian government is serious to implement cashless transactions in India. It was desired to ban on big denomination notes to move towards cashless economy in India.

Review of Literatures

Some relevant review of literatures are as follows:-

Pradeep H. Tawade (2017) in his study "Future and Scope of Cashless Economy in India" analyzed the advantages and disadvantages of cashless payments in India and suggested some policy measures for the success and enhancement of cashless payments. He also tried to identify future prospects of cashless payments in India.

Garg & Panchal (2017) in their "Study on Introduction of Cashless Economy in India 2016: Benefits & Challenge's" focused on cashless economy in India. The authors highlighted the benefits and challenges of cashless economy in India. They analyze the sample data collected from general public and came to conclusion that many people actually agree with the government on the usefulness of cashless economy as it helps to fight against terrorism, corruption and black money. They advocated about strengthening internet security.

Princewell N Achor & Anuforo Robert (2013) in their study "Shifting Policy Paradigm From Cash-Based Economy To Cashless Economy: The Nigeria Experience" examined the issues in cash based to cashless society in Nigeria. The essence of policy drift or change has been highlighted in the study, particularly as it concern payment system. The study concluded that

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Nigeria drift towards cashless society must be approached with caution given inherent social vices, infrastructure problem and literacy level in Nigeria.

Objectives of the Study

- To identify the problems of cashless economy in India
- To assess the prospects of cashless economy in India

Problems of Cashless Economy in India

In many countries of the world, cashless transactions are conducting smoothly and their economy is on path to become fully cashless economy. But in India the scenario is totally different as compared to other highly developed countries which are doing transactions mostly cashless like Sweden, Netherland, Singapore, France etc. The problems that need to be resolve are:-

1. **Low Literacy Rate: -** Literacy rate in India is 74.04% according to Census 2011. It's very low as compare to developed countries and the economies where mostly cashless transactions are conducting. If the people even don't know how to read and write then it's very difficult to use electronic devices for transactions.
2. **Poor Technological Knowledge: -** One of the major problems in cashless transactions in India is that the people who are literate can't do cashless transactions because of poor technological knowledge. Cashless transactions need technological education.
3. **Lack of Financial Inclusion: -** Without improving current level of financial inclusion, it's very hard to achieve maximum cashless transactions. It is also a big problem in the way of cashless transactions that after more than 70 years of independence, India's significant portion of population still not aware about the financial services, financial

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products and financial institutions. As for the fiscal year 2016, the financial inclusion score of India, according to CRISIL Inclusix 2018, was 58.0, on a scale of 100.

4. **High rates of Taxes: -** In India tax rates are comparatively high. If we compare the countries where cashless transactions are conducted frequently with India then it can be known that tax rate is low in those countries in comparison with India. High tax rates promote tax evasion and to avoid taxes people avoid cashless transactions. Both direct and indirect taxes are high in India.
5. **Cyber Safety and Security: -** Another challenge to cashless economy in India is that Cyber safety and security is poor. The cyber laws in India are not enforced effectively which leads to increase in cyber attacks. In India people fear that their hard earned money might be theft in just some clicks by the hackers. India ranked 23 in Global Cyber Security Index by International Telecommunication Union in 2017.
6. **Low Internet Speed:-** According to the American Cloud services provider company Akamai Q1 2017 State of the Internet Report, the average internet connection speed in India is 6.5 Mbit/s. Globally, India was ranked 89th out of 149 countries by average internet connection speed. This is also a serious problem which is a big hurdle in India's way towards cashless society. If internet speed is not fast than how it can be even imagine conducting cashless transactions smoothly.
7. **Cost of cashless transactions: -** There are certain charges for ATMs, Debit cards and credit cards. Some people avoid cashless transactions just to avoid charges because they have to pay the extra charges upon such transactions.
8. **Tendency and perception of the peoples: -** Majority of the Indian population is traditional not modern and the age group above 45 are not ready to accept new mode of transaction. They are stick to cash and do not want to change their traditional method.

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9. **Lack of government's schemes and program to implement cashless transactions: -** Just few announcements can't change the nation if Indian government want to change the society and turn people to the cashless society then it's very necessary to start training program to educate people at large. There are lack of training programs and educational programs regarding cashless transactions.

Prospects of Cashless Economy in India

Despite all the above problems there some future prospects that can be a good indicator in India to become cashless economy

1. **Government's determination: -** Current Government in India is determined towards cashless economy and taking big decisions for it like demonetization. So if the government's efforts will continue towards it then certainly cashless transactions will enhance in India. The schemes like Digi-Dhan and Lucky Grahak Yojana focused on bringing the poor, lower middle class and small business into the digital payment fold will certainly enhance the cashless transactions.
2. **Digital Literacy: -** Cashless transactions current position in India may not be satisfactory but how the India's peoples are becoming digitally literate then certainly it will increase cashless transactions in future.

3. **Internet Users: -** The National Association of Software and Services Companies (NASSCOM) and Akamai,reported that the number of Internet users in India is expected to cross 730 million by 2020. This is a good sign to improve digital transactions.

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4. **Smart Phones Users:-** A study by Counterpoint's Research says that India's Smartphone user base topped 300 million in 2016 with the market growing by 18%. This is also a clear indication that in near future most of the people in India will have Smart phones. It will surely enhance cashless transactions in India.

5. **Aadhar Enabled Payment System: -** Now a days in India Credit or Debit card may not be available in everybody's pocket but more than 90% of adults in India have got their Aadhar Card according to Unique Identification Authority of India and Government is linking all the bank accounts to aadhar card and soon aadhar enbled payment system will be available across the India so surely it will increase cashless transactions.

6. **Waiver of Charges: -** Government of India is also waiving charges in some transactions made by digital mode. It will also promote cashless transactions in India.

Conclusion

Although the users of cashless transactions are less in India, but the speed of turning to cashless/digital transactions in last few months a positive signal for cashless economy. It is proven fact that parallel economy and corruption have inverse relationship. If India will move towards cashless payments than it can decline corruption in the country surely.

The coming future of the Cashless Economy in India looks promising as the response of the India's people towards this step of the Current Indian government and the full support towards it is an indication that the Indian government's move is likely to succeed. The transparency in the economy will increase through cashless transactions and the digital payments. It will also enhance the GDP growth of the Indian economy. Indian

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economy can be able attract more FDI and Export may also increase through this. Overall it can enhance Indian Economy's credibility at global level.

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