

## “A CASE STUDY ON GROWTH PATTERN OF CASHLESS TRANSACTION SYSTEM IN INDIA”

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### **ABSTRACT**

**Background:** - This case study based paper analyzes India's gradual transition towards a cashless economy. The monetary fluster between consumption and affordability condemned the household severely for every now and then in all subjects of life from one place to another. This paper is a light on the appeal of **Cashless Transaction System**, its usability and affordability while they are impacting on its preference to use. Society has an influence on the use of **Cashless Transaction System** which is taken as an alternative of **Cash Transaction System**.

**Methods:** - We present a theoretical model that evaluates the decisions by consumers and sellers to adopt cashless transaction system. We used the data from various sources like RBI Payment System Indicators, VISA, CRISIL, etc. to identify the various bottlenecks with cash transaction system and benefits from cashless transaction system.

**Results:** -The findings disclose that the **Cashless Transaction System** has a magnetic appeal as it has an influential effect which is often endorsed by the society. While, it is also investigated and concluded that **Cashless Transaction System** also has its usability and affordability for the consumers.

**Conclusion:** -These measures have resulted in a significant decrease in liquidity in short term, which is expected to ease gradually with the introduction and circulation of awareness regarding cashless transactions. As a result the financial conditions of banks will improve and increase the productivity of banks which will be a leveraged for lending process.

**KEYWORDS:** Cashless, Transaction, Usability, Affordability, Society.

### **INTRODUCTION**

We see change in almost every sphere of life surrounding us. Trade and exchange of goods and services has also come a long way from the times of the barter system to the modern currency system. Despite the fact that a transition to a cashless society is already happening, there is reluctance among the high echelons of power

to switch over to the completely cashless economic system as it decentralizes the power from their hands. However, big banks and credit card companies are likely to be passionate supporters of this revolutionary idea.

While at first impression, a complete doing away with money in the form we know it might seem to be a very far-fetched idea but it feels so only because we are familiar to transactions being done through cash. In reality, in countries like the United States and Sweden, transactions involving cash only account for 7 and 3 per cent of the total transactions respectively. Some economies have already tried out a small-scale cashless model using Radio Frequency Identification Microchips and Digital Coins. In a nutshell, a cashless economic system is much closer than most people would imagine.

## **OBJECTIVE OF THE PRESENT WORK**

### **Primary Objectives**

- The aim behind this case study is to assess the behavior towards Cashless Transaction System and how far they are adapted to this new world of cashless society.
- **Secondary objectives**
- To know the importance of Cashless Transaction System.
- To analyze the risk associated with Cashless Transaction System
- To identify the factors promoting Cashless Transaction System

### **The Current Monetary System and its Drawbacks**

Most economies in the world have a central bank or an authority that reserves the rights to issue paper and metal currency and is responsible to assure the bearer of its assigned value. While this might come across as a fairly easily understandable system, there is a lot more that goes into 'money creation'. The amount of cash in an economy at any instant is guided by the market forces of demand and supply and the central authority in charge regulates the flow of cash in or out of the market.

Cash, however, is only the physical instantiation of money. The reason why cash has been a popular form of exchange for such a long time is because of the tangibility that it provides to the entire idea of money. But does money really need to have a physical form that people could identify with?

## Perhaps Not

Outlined here are some major drawbacks of cash-

- At an individual level, cash is not convenient to carry and manage. It cannot be traced or insured as cash once lost or stolen cannot be recovered.
- Cash is expensive to print, inspect, move, store and guard.
- Counterfeiting is always going to be a problem as long as paper currency exists.
- Hand-to-hand currency is favored by criminals as it does not leave a paper trail.
  
- Cash transactions are not traceable in nature, thus providing no transparency. This leads to corrupt practices and financial crimes such as excessive money laundering.
- Monitoring of tax compliance is difficult for the Government.
- High cash usage results in a substantial amount of money outside the formal economy, thus stunting the effectiveness of policies aimed at managing inflation rates.
- From a global perspective, the economic growth imperative inherent in the current monetary system plays a major role behind global warming and other environmental crises.

In awaken of the issues highlighted above; some governments are already viewing the use of cash in a negative light. In fact, according to the U.S. Government, cash payments are now thought of as 'suspicious' activity that needs to be reported to the authorities.

Cashless Transaction System is a new and easier way of paying for goods and services. Cashless Transaction System was introduced in the 1950s and is now an essential form of ready money which reduces the risk of handling a huge amount of cash. It includes debit cards, ATMs, smart cards; etc Plastic money is a term that is used predominantly in reference to the hard plastic cards we use every day in place of actual bank notes. They can come in many different forms such as cash cards, credit cards, debit cards, pre-paid cash cards and store cards.

## Current Advancements towards a Cashless Society

The first and the foremost pre-requisite for building an economy having no cash is to have every single entity, whether an individual or a small-scale or a large-scale firm, to be registered under unique IDs. This can be achieved biometrically, as has already been done in India with the advent of the Government's UID scheme named 'Aadhar'. And already, nearly 40 million bank accounts in India have been linked with Aadhar. Such feasible and low cost biometric systems could easily support electronic payment systems which could replace the current hand-to-hand currency system.

## Possible Impacts of Full Cash Abandon

Removal of currency notes and coins is likely to be the biggest monetary reform since the inception of the former itself.

- Banks are likely to be in favor of a cashless society as it saves them the cost of printing, inspecting, storing and guarding 'paper' money. Costs also include the security and labour involved in processing and transporting cash, maintaining automated teller machines, and regulating the amount of cash in circulation. According to an estimate, European banks could save between €45bn and €90bn annually if they get rid of cash from their systems.
- Prohibition on the use of cash could restrict criminals such as drug dealers and people involved in possible unregistered activities like prostitution and betting from doing business.
- Eliminating cash could also mark an end to bribery and other such corrupt motives as authorities would be able to track virtually all transactions. Tax crimes would also stop.
- Restriction on the possession of currency would remove the 'zero nominal bound' as a constraint on counter-cyclical monetary policy.
- According to a study by Wolman, countries could save about 1% of their GDP annually by switching over to 'electronic' currencies.

Every reform has some pros as well as cons. There few challenges to our proposed cashless system, which are as follows-

- People still rely on the idea of money being 'physically' realizable. For some psychological reason, 'paper' money is admired more than 'plastic' money or 'digital' money. Cash keeps a check on people's spending habits.
- Anything that's technological comes with a baggage of risks and security threats. A very high and unbreakable degree of security would be needed as a deterrent to hackers and cyber criminals.
- The idea of a cashless society won't be readily popular among a certain section of our demographics. While a user-friendly model might not necessarily require consumers to be tech-savvy, there would still be some sort of digital awareness required to understand the working of a society with no cash. People who have grown up and lived through times when a substitute for cash wasn't even thought of might face some difficulty in adjusting to a world without currency notes.
- All the existing cash in the world cannot be removed or deemed 'abandoned' at one go. Also, when it comes to money, reassurance is the thing that matters most. For a complete

switch-over to the new monetary model, the voluminous amount of cash presently circulating in the market would have to be converted into an equivalent number of ‘digital’ points.

- Developing economies have an added challenge in the form of high levels of illiteracy. For example in India, there are huge sections of rural populations who have not seen banks in their lifetime. The only way they recognize money is through currency notes and coins.

An ideal cashless economy should look to incorporate all the benefits of a digital monetary system and to find solutions to the abovementioned challenges, in order to achieve wide acceptance among the people who earn, spend and consume.

### **How to Remove All the Cash from the Economy?**

There are many possible ways of going about this but an outright prohibition on the use of cash is certainly not going to work. Rather, the central bank or authority could ‘tax’ the use of cash, leading to the value of the paper currency depreciate relative to the reserves, say by 10% annually. By managing the exchange rate between currency and reserves and pushing it further, the central bank could remove the ‘zero lower bound’ and tax the use of currency, which would thus tax the criminal and anti-social enterprises that largely rely on currency.

So a full restriction on the use of cash could be seen as a limiting version of mildly extreme policies that tax currency by allowing its value to depreciate relative to bank reserves. When the exchange rate between currency and reserves becomes large enough, cash in the economy would cease to exist.

### **LITERATURE REVIEW**

**Annamalai, S. and Muthu R. Iakkuvan** (2008) in their article “Retail transaction: Future bright for plastic money” projected the growth of debit and credit cards in the retail transactions. They also mentioned the growth factors, which leads to its popularity, important constraints faced by banks and summarized with bright future and scope of plastic money.

**Alvares, Clifford** (2009) in their reports “The problem regarding fake currency in India.” It is said that the country's battle against fake currency is not getting easier and many fakes go undetected. It is also stated that counterfeiters hitherto had restricted printing facilities which made it easier to discover fakes.

**Ashish Das, and Rakhi Agarwal**, (2010) in their article “Cashless Payment System in India- A Roadmap” Cash as a mode of payment is an expensive proposition for the Government. The country needs to move away from cash-based towards a cashless (electronic) payment system. This will help reduce currency management cost, track transactions, check tax avoidance / fraud etc., enhance financial inclusion and integrate the parallel economy with main stream.

**Bansi Patel, Urvi Amin** in their article “Plastic Money: Roadmap Towards Cash Less Society” the world glance as per technology changes suitable changes should be adopted by the economy. And among all the changes in economy lead to some drastic changes in to the transaction. Now days in any transaction Plastic money becomes inevitable part of the transaction. And with it life becomes more easy and development would take better place. Relating to Indian scenario how the plastic money took place in the banking world would be focus by the researcher over here. And along with the plastic money it becomes possible that control the money laundry and effective utilization of financial system would become possible which would also helpful for tax legislation.

**Nayak, Tapan Kumar and Manish Agarwal** (2008) in their paper “Consumer’s behavior in selecting credit cards” discussed about the factors influencing the selection of credit cards among consumers. The major factors points out by them are service offers, promotional offers, interest benefits, cash benefits, ease of payments, payment charges, card benefits and time benefit.

**R. Shenbagavalli, A. R. Shanmugapriya, and Y. Lokeshwara Chowdary** , in their studies “Risk Analysis of Credit Card Holders” time has come were the customers need to know the degree of risk involved in the usage of plastic money, and the study had helped to identify the factors and the degree of risk exposed and the protective measures available to minimize the financial and operational risk. It’s clear from the study that the awareness of the customer is comparatively less and the credit card issuing banks are processing a strategy to educate the users of credit card.

**Reddy, Ramakrishna** (2006) in his article “Card products in India”, commented about the reasons for not attaining full growth potential among card products and suggest remedies for growth in this field for the benefit of all players.

**Saha, Tapash Ranjan** (2006) in the article “Debit cards overtaking credit cards in India”, provided comparative features of both credit cards and debit cards and its volume of transactions from 1995 to 2005, shows that debit cards growth is out placing the credit cards.

**Srinivas, N.** (2006) in his study “An analysis of the defaults in credit card payments”, has tried to analyze the socio-economic profile of the defaulters of credit cards, to identify the set of factors which contributed to such defaults and suggest relevant measures to minimize the default cases. Analysis of reasons indicated that economic hardship is the major reason identified by majority of the sample units follows by rigid payment structure and loss of job/business. The main suggestion is that the banks concerned should redesign the payment structure of credit card defaulters in a flexible and affordable installment.

**V. Vimala**, in her studies “The Impact of Credit Cards on HDF C Bank Customers in Shimoga – An Evaluative Study” the role of credit card services and its impact in the development of credit card services was analyzed. The banking products and services is the key activities for the development of the Banking sectors. The study contributes to increase the quality services and usefulness from the innovations of banking products in India.

### **Contribution of the Study**

21<sup>st</sup> Century banking has become wholly customer-driven and technology driven by challenges of competition, rising customer expectations and shrinking margins, banks have been using technology to reduce cost and enhance efficiency, productivity and customer convenience. Technology intensive delivery channels like net banking, mobile banking, etc. have created a win-win situation by extending great convenience and multiple options for customer. From educating customers about Cashless Transaction System there is a need to educate them about the differentiating factors of the Cashless Transaction System. Because Visa and Master Card are advertising regularly and thereby increases awareness. The strategy should be to emphasize on its differentiating characteristics. They also need to identify potential customers and target those using email. As internet is growing at a fast rate the net users can be targeted by having interactive sites. The prospective company’s card personality could also be used in the home page to solve customer queries in the ‘Best Possible Manner’. So, it is expected that if awareness and education about Cashless Transaction System is developed then only we will be in a position to stop fake money in the Indian economy.

### **CONCLUSIONS**

The cashless transaction system is reaching its growth day by day , as soon as the market become globalised and the growth of banking sector more and more the people moves from cash to cashless system. The cashless system is not only requirement but also a need of today society. All the online market basically depends on cashless transaction system. The cashless transition is not only safer than the cash transaction but is less time consuming and not a trouble of carrying and trouble of wear and tear like paper money. It also helps in record of the all the transaction done.

So, it is without doubt said that future transaction system is cashless transaction system

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