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# Cashless Economy: A Comparative Study of World Regarding India

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**Abstract** - Cash is like water a basic necessity without which survival is a challenge. but time to time, economies tried to make payments digital and want to reduce the cash transaction .Nevertheless, cash use doesn't seem to be waning all that much, with around 85% of global payments still made using cash. One of the main reasons of it is that there is nothing to truly compete with the flexibility of notes and coins. Cashless economy means all transactions of money done by e-transactions. In this digital era many new modes of transactions have introduced like pay tm, Apple pay, PayPal etc.. A report by Boston Consulting Group (BCG) and Google India revealed that last year around 75 per cent of transactions in India were cash-based, while in developed nations such as the US, Japan, France, Germany etc. it was around 20-25 per cent. The depletion in cash due to demonetization has pushed digital and e-transactions to the forefront; e-banking, e-wallets, and other transaction apps becoming prevalent. Recently RBI shows the aim of less cashless economy in its document — “Payments and Settlement Systems in India: Vision 2018” and encourages electronic payments. India uses too much cash for transactions. The ratio of cash to gross domestic product is one of the highest in the world—12.42% in 2014, compared with 9.47% in China or 4% in Brazil. The study tried to compare the present situation of world with the concept of cashless and its profits and challenges of achieve cashless economy and also tried to find out the possibilities of cashless economy in India

**Keywords:** - Demonetization, Cashless Economy, E-transaction, Digital Banking, Unified Payments interface

## I. Introduction

Cashless Economy is when the use of cash within an economy is nonexistent and all transactions have to be through electronic channels such as direct debit, credit and debit cards, electronic clearing, and payment systems such as Immediate Payment Service (IMPS), NEFT (National Electronic Funds Transfer) and Real Time Gross Settlement (RTGS) in India. As of now, Cashless Economy has only academic importance. The Indian Economy continues to be driven by the use of cash; less than 5% of all payments happen electronically. In India, the ratio of cash to gross domestic product is 12.42% in GDP, which is one of the highest in the world. It was 9.47% in China or 4% in Brazil. Further, the number of currency notes in circulation is also far higher than in other large economies; India had 76.47 billion currency notes in circulation in 2012-13 compared with 34.5 billion in the US. Demonetization plays an

important role in the making of India a cashless economy. After demonetization initiative has been a boon for India's e-payment providers. Paytm reported a three times surge in new users tacking on over 14 million new accounts in November alone. While Oxigen Wallet's daily average users increased by 167% since demonetization began. Pramod Saxena, founder and CMD of Oxigen Services said" Ever since Prime Minister Narendra Modi's demonetization announcement, we have suddenly seen a 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, street vendors, rickshaw drivers, taxi's etc., who've signed onto our Oxigen Wallet app for the merchant payments service,".

## II. Review of literature

**Shendge et al (2017)** conducted a study on "Impact and Importance of Cashless Transactions in India". The study focuses on the impact and importance of cashless concept in India. Cashless policy will increase employment, reduce cash related robbery thereby reducing risk of carrying cash. Cashless policy will also reduce cash related corruption and attract more foreign investors to the country. In many countries introduction of cashless economy can be seen as steps in the right direction. It is expected that its impact will be felt in modernization of payment system, Reduction in the cost of banking service, Reduction in high security and safety risk and also curb banking related corruption. Electronic banking will be made banking transaction to be easier by bringing services closer to its customers hence improving banking industry performance. The whole country is undergoing the process of modernization in money transactions, with e-payment services gaining unprecedented momentum. A large number of businesses, even street vendors, are now accepting electronic payments, prompting the people to learn to transact the cashless way at a faster pace than ever before.

**Mukhopadhyay (2016)**, however, attaining financial inclusion through the use of cashless instruments in rural areas requires a different approach. A study undertaken by India Development Foundation (IDF) in 2010-11 finds that less than 0.5% of all payments in rural areas are made through cashless instruments .What is needed here is a mechanism to incentivise the cashless network to function. In other words, someone needs to be incentivized to make the cashless system function.

**NIPFP Working Paper (2016)** entitled with "Demonetization: Impact on the Economy". In this research work effects of Demonetization on Indian economy divided in two stages of time period. These two would have different effects on the economy in the short term and in the medium term, as will be explored below. The study found that in short-run effects of demonetization may negative but in medium- run those effects become beneficial for the economy.

**Akinola(2012)** in his study entitled with "Cashless Society, Problems and Prospects, Data Mining Research Potentials" This paper takes a keen look into the feasibility of introducing cashless means of business transactions into our society and the security threats associated with it. The paper explains the potentials of applying data mining techniques to effectively control the security threats and finally presents a model for knowledge extraction in a cashless environment.

## III. Objectives of the study

1. A comparative analysis of cashless situation in India and other countries.
2. To find out the possibilities became the cashless economy in India.

#### **IV. Why people prefer cash transactions in India**

There are several reasons as to why Indians prefer Cash over electronic transactions.

- Lack of access to banking leaves no option other than cash for a large fraction of the population.
- Since, there are no extra transaction costs in Cash payments, it affects the consumer behavior. Electronic payments had been so far unviable for small value transactions but things are changing fast.
- Cash provides flexibility and simplicity as a transaction needs only moving from one hand to another; there are no worries about crashing of computers and losing the transactions.
- India has a large unorganized sector with overwhelming majority of retailers, suppliers and service providers. They have neither the infrastructure to offer card-based transactions nor the inclination to encourage consumers to pay by credit cards or debit cards. Lastly, the lack of education /awareness among consumers regarding use of cards.

#### **V. Structural challenges on the way of cashless economy**

Lack of structural base is another big hurdle of unachieved targets to digital India. Mobile internet Penetration is crucial in wider number of pockets since PoS works over mobile internet connections. Earlier banks charged money on card-based transactions which has now been pointed out as a hurdle. Also, the low literacy rates in rural areas along with lack of internet access or even basic utilities in many places, it becomes very difficult for people to adopt the habit for digital transactions. Internet accessibility and Cyber crimes make it difficult to become India a cashless economy because people are not feeling comfort to use transaction by digital modes in fear of cyber crimes. Low literacy rate in rural India also a big structural challenge in front of cashless economy.

#### **VI. India and other countries' status as cashless economy**

Prime Minister Narendra Modi expresses government's motives to make India less cashless economy. There is no doubt about Modi's goodwill. However, before we start paying autowallahs and vegetable sellers in the neighbourhood through mobile app, let's have a look at how the world's first cashless economy in Sweden is doing. To believe media reports, Sweden is shaping up to be the first country in the world to plunge its citizens into a fascinating - and terrifying - economic experiment – a cashless society. Sweden started the journey towards cashless economy since many years. Take a bus ride, buy a magazine or a chewing gum, digital payments are accepted everywhere. From this Feb

Sweden adopted -0.5% negative interest rate. But this type of policy very harmful for unemployed people and retired people's of country which depends on their fix deposits.

As the report of master card "cashless Journey" Report, Based on the rate of cash-free transactions and the percent of the population that relies on a debit card, here is a look at the 10 countries leading the pack toward a nearly cashless economy.

### 1. Belgium

- Non-cash payments' share of total value of consumer payments: 93 percent
- Percent of population with a debit card: 86 percent

Belgium has a law similar to France's with regard to limiting cash payments to 3,000 euro. Belgium's law goes a step further, however: It could charge up to 225,000 Euros for a violation. Perhaps the 14 percent of Belgians without a debit card ought to reconsider their choice.

### 2. France

- Noncash payments' share of total value of consumer payments: 92 percent
- Percent of population with a debit card: 69 percent

If you live in France, are saving up to buy a new car (perhaps a Citroën), and keep all of your money under your mattress, we have some bad news for you: The country has disallowed any cash transactions over 3000 Euro. You can still buy a car using cash from a friend, but if you're paying them more than 1,500 euro, you legally need a bill to prove payment.

### 3. Canada

- Non-cash payments' share of total value of consumer payments: 90 percent
- Percent of population with a debit card: 88 percent

If you're from a border town like Buffalo or Detroit, at some point you've probably rummaged in your pocket for a few pennies, only to find that one or more of your coins is emblazoned with Queen Elizabeth instead of Abraham Lincoln. That scenario is about to become a lot more unlikely; starting in February 2013, Canada stopped minting and distributing pennies, supposedly saving the country \$11 million a year.

### 4. United Kingdom

- Non-cash payments' share of total value of consumer payments: 89 percent
- Percent of population with a debit card: 88 percent

Before you step on one of those famous double-decker buses in London, make sure that you have an "Oyster Card" or a prepaid ticket on you.

From July 6, city buses stopped accepting cash as a valid payment. Still, it's doubtful that too many Londoners will care; only 1 percent of commuters used cash in 2014, compared to 25 percent in 2000.

## 5. Sweden

- Non-cash payments' share of total value of consumer payments: 89 percent
- Percent of population with a debit card: 96 percent

Bank robberies in Sweden plunged from 110 in 2008 to only 16 in 2011, the lowest level since the country started recording its numbers in the early 1970s.

The reason? Swedish banks are carrying less cash than ever before. There's often nothing for would-be thieves to steal

## 6. Australia

- Non-cash payments' share of total value of consumer payments: 86 percent
- Percent of population with a debit card: 79 percent

If a relative is taking "No Shave November" a little too seriously, it may help to turn them on to another trend that may be beginning to catch on: No Cash November, launched by Australian billionaire Andrew "Twiggy" Forrest in his home country.

Unfortunately, however, there's no reason why somebody can't both not shave and not use cash

## 7. The Netherlands

- Non-cash payments' share of total value of consumer payments: 85 percent
- Percent of population with a debit card: 98 percent

Driving into Amsterdam? Make sure you have a credit or debit card on you; the city's parking meters no longer accept cash or coins. A number of retailers and restaurants in the city also refuse to take cash; Dutch customers have taken such policies in stride, with 75 percent of them understanding and accepting of no-cash rules.

## 8. United States

- Non-cash payments' share of total value of consumer payments: 80 percent
- Percent of population with a debit card: 72 percent

The simmering shift to electronic payments has boiled over in the past few months, with Apple announcing its new "Wallet" service and introducing, along with Microsoft and other tech companies, electronic watches with payment capabilities. American Express CEO Ken Chenault declared that he didn't fear the demise of plastic cards; even ATMs run the risk of becoming obsolete in coming years

## 9. Germany

- Non-cash payments' share of total value of consumer payments: 76 percent
- Percent of population with a debit card: 88 percent

Munich's Oktoberfest, long known for dirndls, lederhosen and tipsy American tourists gaping at the people wearing them, has become a more expensive proposition in recent years: A liter of beer ran revelers around 10 Euros this fall.

A minor consolation may be that partyers don't have to carry loads of cash to pay for their inevitable binges: Starting in 2012, merchants needed only an iPhone and an EMV chip reader (which is plugged into the phone) to accept credit or debit card payments, using technology from the Munich-based company pay works.

## 10. South Korea

- Non-cash payments' share of total value of consumer payments: 70 percent
- Percent of population with a debit card: 58 percent

South Korea might have been higher on the list, but societal and governmental initiatives that seek to reign in household debt by reducing usage of credit cards have pegged it down to number

## VII. Possibilities for cashless economy in India

Cashless economy means all transactions of money done by e-transactions. In this digital era many new modes of transactions have introduced like pay tm, Apple pay, PayPal etc.. A report by Boston Consulting Group (BCG) and Google India revealed that last year around 75 per cent of transactions in India were cash-based, while in developed nations such as the US, Japan, France, Germany etc. it was around 20-25 per cent. India is almost entirely a cash economy. Over 92% of its workers belong to the unorganized sector and earn in cash. Cash powers the rural economy. Also, 97% of retail transactions are done in cash, with only 6% of retailers accepting digital payments. India has 10 lakh point-of-sale machines or computerized cash registers, one-tenth the numbers in USA and China. But there are many good factors with India which are helpful to create roadmap for cashless economy. The number of cashless transactions could rise significantly given the rapid increase in the number of people owning mobile phones and using the internet.

The World Bank estimates there are 33 crore internet users in India, which make it the second largest internet market. Mobile phone subscriptions went up from 23 crore to 96 crore between 2007 and 2015.

Serval of these mobile and internet users now have a bank account under the Pradhan Mantri Jan Dhan Yojana, a scheme to link every household to a bank account. Under the scheme, 25.4crore accounts exists and 19.3 crore RuPay debit card have been issued.

And the concept of Aadhar card for digital also provides facilities to reduce use of cash as it mandatory for anyone who want to food and pension.

## VIII. Benefits of cashless economy

- Reduced instances of tax avoidance because it is financial institutions based economy Where transaction trails are left.
- It will curb generation of black money
- Will reduce real estate prices because of curbs on black money as most of black money is invested in Real estate prices which inflates the prices of Real estate markets
- In Financial year 2015, RBI spent Rs 27 billion on just the activity of currency issuance and management. This could be avoided if we become cashless society.
- It will pave way for universal availability of banking services to all as no physical Infrastructure is needed other than digital.
- There will be greater efficiency in welfare programmes as money is wired directly into the accounts of recipients. Thus once money is transferred directly into a beneficiary's bank account, the entire process becomes transparent. Payments can be easily traced and collected, and corruption will automatically drop, so people will no longer have to pay to collect what is rightfully theirs.
- There will be efficiency gains as transaction costs across the economy should also come down.
- 1 in 7 notes are supposed to be fake, which has a huge negative impact on economy, by going cashless, that can be avoided.
- Hygiene – Soiled, tobacco stained notes full of germs are a norm in India. There are many such incidents in our life where we knowingly or unknowingly give and take germs in the form of rupee notes. This could be avoided if we move towards Cashless economy.
- In a cashless economy there will be no problem of soiled notes or counterfeit currency
- Reduced costs of operating ATMs.
- Speed and satisfaction of operations for customers, no delays and queues, no interactions with bank staff required.
- A Moody's report pegged the impact of electronic transactions to 0.8% increase in GDP for emerging markets and 0.3% increase for developed markets because of increased velocity of money
- An increased use of credit cards instead of cash would primarily enable a more detailed record of all the transactions which take place in the society, allowing more transparency in business operations and money transfers.

## IX. Conclusion

It is a great game changing movement to the small traders & businesses for promoting cashless economy parallel with demonetization of economy, government has started delivering on its promises of wiping out black money & imparting the benefit to the common people from the money collected. Lowering down the deemed profits from gross turnover of professionals as well to give parity & tax benefit on the same lines as has been advanced to the small traders & businessmen taking benefit of presumptive taxation. Cashless move is dangerous move in present one but it is a great achievement in the long run economy. This will decline the liquidity cash in form and increasing the e-payment at their own hand. The queue tension in the front of bank is rigorously decline and increasing in the shopping expenditure as per the limit of income. So far as concern the economy is running smooth and as present concern of transaction of e-payment. Demonetization prepares a roadmap for cashless economy in India. In a cashless economy, there are more possibilities to make records of all transactions which help to grab the black money. It makes the transparency the exact money supply in the economy which is helpful to make more effective monetary policy by RBI. But in India, it is not possible to become a cashless economy, less cashless economy is better concept for Indian economy at the present time. There is need to remove the structural challenges slowly.

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