

A STUDY ON CASH, LESS CASH AND **CASHLESS ECONOMIES -THE** **INDIAN SCENARIO**

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Abstract

The objective of this study is to understand the acceptance of a transition towards less cash economy in India and how well it would be accepted. India currently, is a cash-based society and a conscious shift towards a less cash economy should not only include the efforts of the Government, but it should be an effort by individuals and enterprises at large. Hence this research aims at understanding on an individual level, the mindset of the citizens of the nation regarding the shift from cash based to a more digital economy. To conduct the survey, the sample population has been chosen by Non-Probability Convenient Sampling. Both the Primary and Secondary Data have been collected for the research. The primary data has been collected through questionnaires and the secondary data through articles. The data collected through questionnaires has been classified as per the relations to a fixed end factor and the data has been tabulated and analysed to understand the perception of individuals towards cash, less cash and cashless economy. Through the study it was found that, in India, there is a slow movement towards the usage of online applications and payment modes for any transactions. Willingness to accept a transition towards a less cash economy is also observed.

Key words: cash less economy, digital payments, crypto currency, debit card, on line transfer.

Introduction

Indian Economy

The Indian Economy is the seventh largest in the world, measured by the nominal GDP and the third largest by the Purchasing Power Parity. India, classified as one of the newly industrialised country, and one of the G-20 major economies, has an average growth rate of approximately 7% over the last two decades. Maharashtra is the wealthiest state in India, with an annual national GDP of USD 330 billion, and accounts for 13.4% of the nations GDP. Maharashtra is followed by the state of Tamil Nadu (USD 170 billion) and Uttar Pradesh (USD 150 billion). In the last quarter of 2014, the Indian Economy surpassed the Economy of the People's Republic of China, becoming the World's fastest growing major economy. India's young population, corresponding low dependency ratios, healthy savings and investment rates and the nations increasing integration into the global economy provides India with the long-term growth prospectives. According to some economists the Indian Economy has the potential to become the third largest economy by the next decade and one of the two largest economies by mid-century.

Transition of Cash Based Economy

With the collapse of the Western Roman Empire, in the Western Europe, coins, silver jewelry and hack-silver came to be the mode of transaction. In the early Middle Ages, the Venetianmerchants adapted to the usage of silver bars for large transactions. With further developments, the Venetianmerchants shifted to the utilisation of physical notes, instructing bankers to pay the recipients. With the development of world economy, increased silver supplies and colonisation of South America, the coins became bigger and developed to become the bases for international payments from the 15th Century.

The East India Company began minting coins in England and shipped the same in the early 17th century. Soon, paper money developed across the world. In the 18th century, most of the key paper currencies were issued in colonies such as Ceylon, Essequibo, Demerara and Berbice. With the issue of currency, the relation between supply of currency and the inflation rates were completely ignored. As the notes were over-issued, soon they became worthless. From the early 1800s notes became the major modes of transaction, although some gold and silver coins were used until early 1900s. With the World War I, the coins slowly lost value and almost disappeared. After the World War I, the only coins which were still used were the standard gold coins, mainly British Sovereigns, until the mid1900s.

David Chaum, in his research paper, in 1983 introduced the concept of Digital Cash. In the year 1990, he founded DigiCash in Amsterdam, a company dealing with electronic cash, in order tocommercialise his ideas from the research. The company failed and filed for bankruptcy in the year 1998 and David Chaum left the company.

In 1997, Coca-Cola initiated payments for their vending machines using mobile payments. This was soon followed by the establishment of PayPal in 1998. The origin of digital currencies dates back to 1990s, Dot-com Bubble. It was one of the first e-gold and was backed up by gold, founded in 1996. Liberty Reserve was another digital currency service, founded in 2006. The Liberty Reserve allowed users to convert Dollars to Euros to Liberty Reserve Dollars or Euros, and exchange them freely with one another at 1% fees. Both the services were centralised, and soon earned a reputation for money laundering and were inevitably shut down by the US Government. In 2008, bitcoin was introduced and it marked the start of Digital Currencies. The growing interest in cryptocurrencies has prompted renewed interest in digital currencies, with bitcoin, introduced in 2009, becoming the most widely used and accepted digital currency.

In the 21st Century, cash has been reduced to a very small part of the money supply. Cash has been mainly replaced by electronic payment systems. Cash is now used only by individuals who do not wish to be a part of any other system or for very small transactions.

A society having an economic state where financial transactions are conducted using electronic representation of money and other forms of digital transactions rather than with money in the form of physical bank notes is considered a cashless economy. Earlier, cashless societies were based on barter system and possibilities for other cashless societies have arisen because of digital currencies such as bitcoin. Economists believe that this is a concept that exists in theory alone.

Statement of Problem

Digital Payments will help the country grow and will also help exercise a control on the unaccounted money transactions. It is easily one of the biggest concerns in a rapidly growing country that's fighting inequality and corruption. A conscious shift to use digital solutions from enterprises and individuals at large, is what will ensure that the next billion Indians are more accepting of technology's advantages. This research is conducted to understand, on an individual level, the mindsets of the citizens of the country regarding the shift from a cash based economy towards a less cash economy.

Limitations of the Study

- India's population resides in the rural areas, and the research is limited only to the urban population.
- Confined to only the people of a geographical area in the urban India.
- The sample size is also limited to only 129 samples which also restricts the research.
- The time taken for the research also acts as a restraint for the research.

Research Methodology

Sampling Design:

Since the population of the study is vast, it is not possible to conduct a complete study of each and every unit of our population, therefore we have designed our study to conduct a non-probability convenient sample survey. The sampling units of our survey were of Indian Citizens from different walks of life. The total number of units for the survey was 129 units.

Data Collection Design:

The data for this research is collected from both **primary source of data** and **secondary sources of data**. The primary data is the data that a researcher collects themselves using various techniques like questionnaires, interviews, observation, etc. For our research we have used **questionnaires** as a mode of collection of data. Various articles have been used as secondary data for the research.

Plan of Analysis:

The study has adopted analytical method for research. The data collected through questionnaires is classified as per their relation to a fixed end-factor and the data has been tabulated and analysed to understand the perception of individuals towards cashless, less cash and cash economy. Such classified and tabulated data has been represented in the form of graphs and charts.

Review of Literature

Why “Cashless” maybe the new normal? G Sampath, THE HINDU, December 14TH2016,

The article is a slightly different take on cashless economy. The author covers the concept of a cashless economy, first by tackling the outcomes of such an economy. The article covers the concept of a Cashless Society with understanding the beneficiaries, and who will face difficulties, if implemented. According to the author, one immediate outcome of a cashless India, would be a sharp rise in indirect taxes compliance. Traders, Small Businesses, Shopkeepers and Consumers, use cash as means to trade, so that they can avoid paying, service taxes, sales taxes, VAT and any number of indirect taxes and fees. The author also suggests that, on enforcing a cashless payment system, 86% of the paper money will be sucked out, and will let people flounder for a period in a condition of acute money scarcity, but that is perhaps the quickest means way to getthere.

Around the world in 80 payments - globe moves to a cashless economy. Bernardo Batiz-Lazo, Leonidas Efthymiou, Sohia Michael for the Conversation January 9, 2016 1.26 am AEDT

The authors, through the research throw some light on innovations around the world towards a cashless economy. Ever since computers were first introduced into the retail banking systems in the late 1950's there has been the vision for the future world where cash is obsolete. The near death of person, increase in debit and credit card use, and innovations such as PayPal, square, apple payandbitcoin,haveledustobelievethatcashlessocietyiswellwithinourreach.So50years

into the journey and, we are still not there yet. However, a few innovations have taken place around the world.

While some countries have embraced mostly electronic forms of payment, this does not mean that the others still using banknotes and coins are less efficient or backwards as some might seem to think. Differences between countries and between rich and poor within them remain partly due to custom, culture and regulation. But also, because new technology failed to make its case to users.

2.3.3] The Countries That Would Profit Most from a Cashless World, Bhaskar Chakravorti, Ravi Shankar Chaturvedi, Benjamin Mazzotta for The Harvard Business Report, MAY 31, 2016.

It’s been nearly 300 years since paper money became accepted as legal tender. While much has changed about how we make, sell, and buy goods, cash has stuck around. It’s been only recently that the road to a wider cashless society has started to really take shape. From apps such as PayPal, Venmo, or Square Cash are signs that Cash is following the path of other “information goods,” such as printed photographs, cassette tapes, and DVDs in being replaced by digital alternatives. Cash, according to a recent MasterCard study, accounts for nearly 85% of the global consumer transactions. Cash has stubbornly resisted going the way of digital extinction. Paper currency is ubiquitous. It is also untraceable and universally accepted. For many users, cash equates to a sense of security and for many it is a sense of independence from government oversight. The rise of cyber-crime and growing concerns about the ability of public agencies to look through digital records will add to the unwillingness among many to let go of paper money. Countries that are highly digitally evolved are best positioned to unlock value by focusing on migrating to digital alternatives from cash. For those countries lagging in their digital evolution, the path to cashless nirvana is through investing in digital inclusion first. This sequencing is crucial to success.

Analysis And Interpretation

Expectance for the future India (Age-Wise)

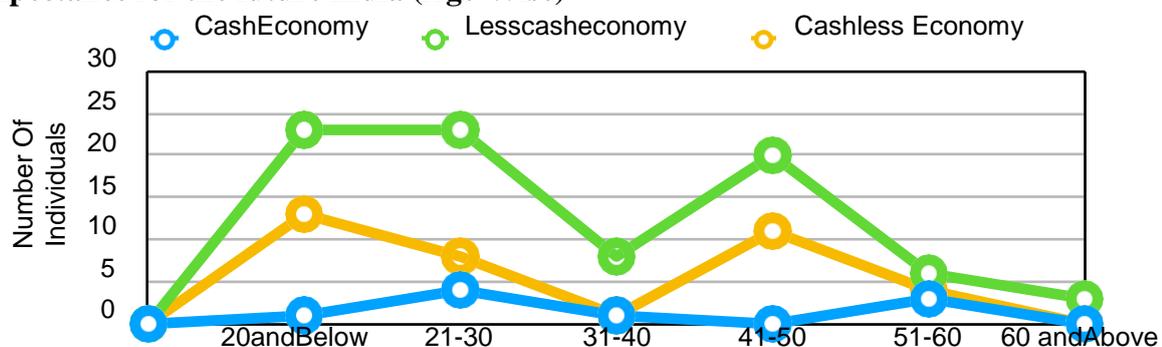


Exhibit 1: Line graph representing expectation for future India

It can be interpreted from the data that the youth's perception and expectation for future India is a less cash economy, where all the major transactions will be through cashless transactions. It can also be seen that the older generation, aged 60 and above also have a changed mindset and are anticipating a movement towards a less cash economy. This indicates that people are ready to see and accept a change in the nearfuture.

Mode of Transactions Used For Day-To-Day Transactions (Currently)

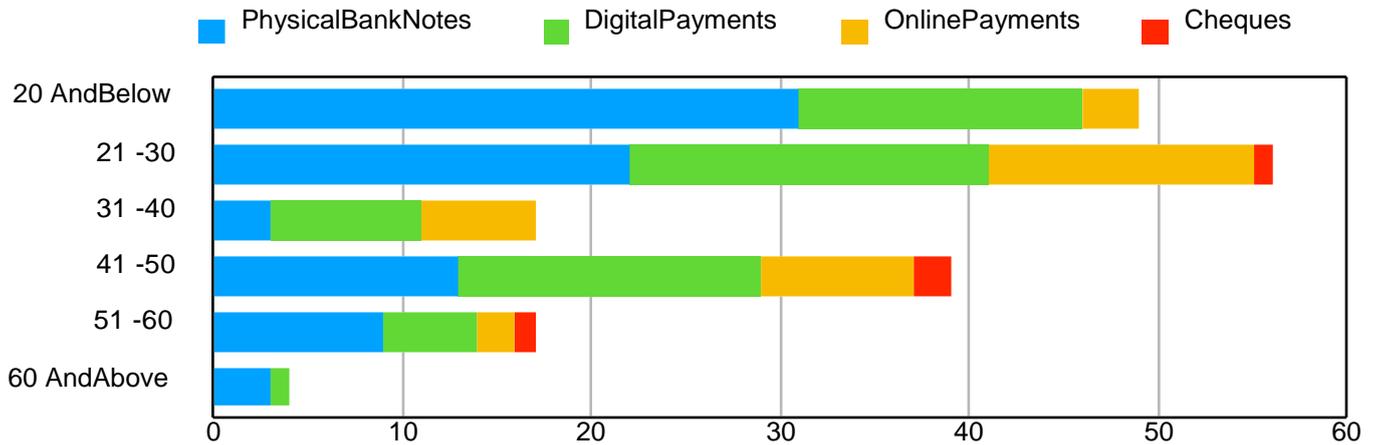


Exhibit 2: Line graph showing the mode of transactions used for day-to-day transactions

The trend towards use of cards and online payment modes are mainly due to the raise in the number of mobile applications available and their strong security features after Demonitization of currency in India, during the month of November, 2016. This also shows a slight movement on behalf of the citizens of the country towards a Cashless or Less cash economy.

Mode of transactions used for large scale transactions (Currently)

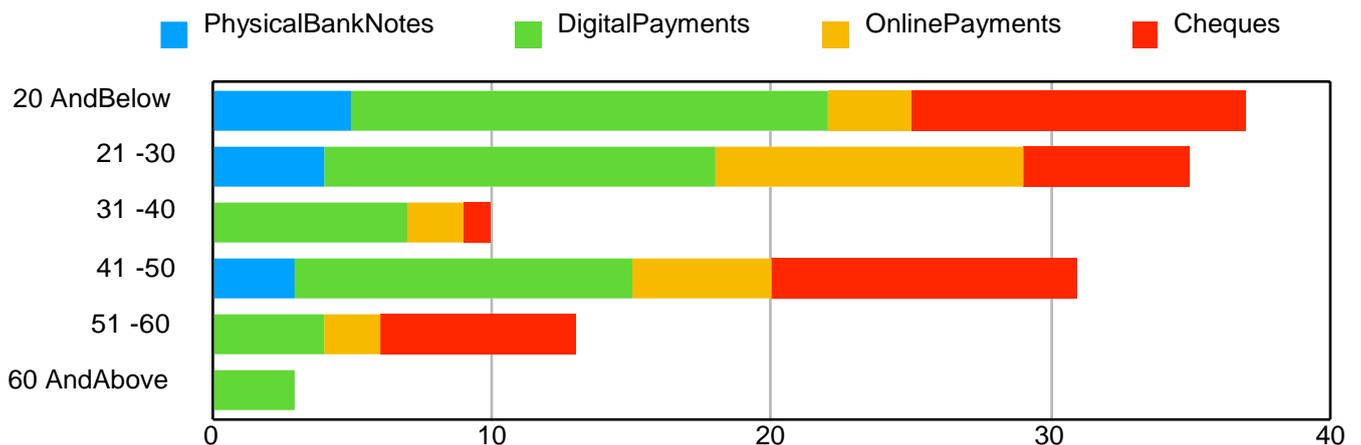


Exhibit 3: Line graph showing the mode of transactions used for large scale transactions

From the data, we can evaluate that most of the sample population do not use physical money for the larger transactions that they perform. This again shows a trend towards a 'Less Cash Economy' or a 'Cashless Economy' for India.

Acceptance level towards a cashless economy

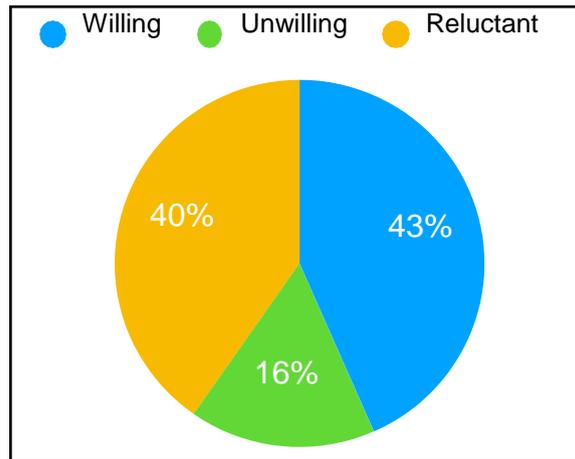


Exhibit 4: Pie chart showing the acceptance level towards a cashless economy

In comparison to the analysis, around 65% of the sample population are looking forward to a less cash economy, but a very small portion of this percentage of the sample are willing to accept a completely cashless economy, mainly because of the inconvenience caused in making small payments using digital or online payment modes.

Level of difficulty in online transactions

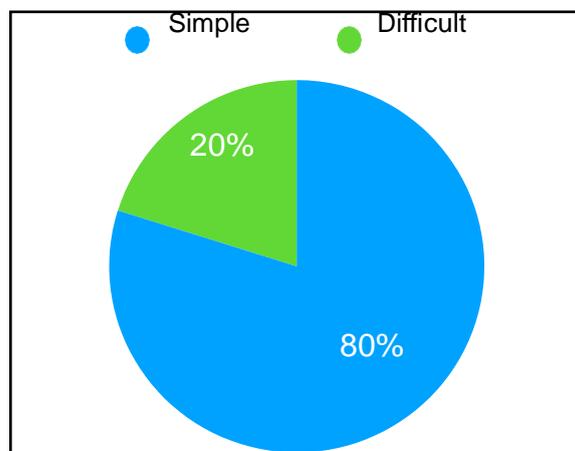


Exhibit 5: Pie chart showing the level of difficulty in online transactions

The above chart shows how the respondents have adapted themselves to technology and making use of the online applications to simplify their day to day tasks. Using technology has become so smooth that the difficulty in using them has reduced tremendously. And if this is channeled positively the country can smoothly transform into a cashless economy.

Level of discouragement due to transaction charges

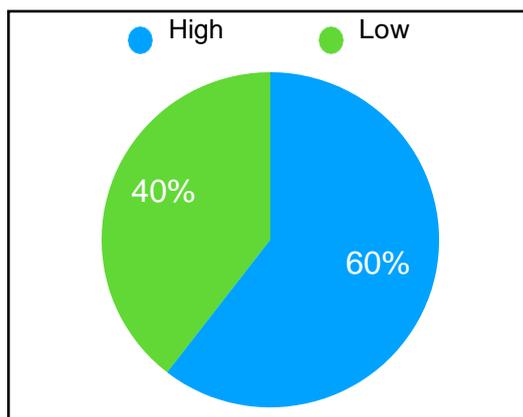


Exhibit 6 : Pie chart showing the level of discouragement due to transaction charges

From the data collected and analysed, it can be understood that if there is something that is holding back individuals from completely moving to digital modes of transactions is the transaction charges that it carries.

Online applications used

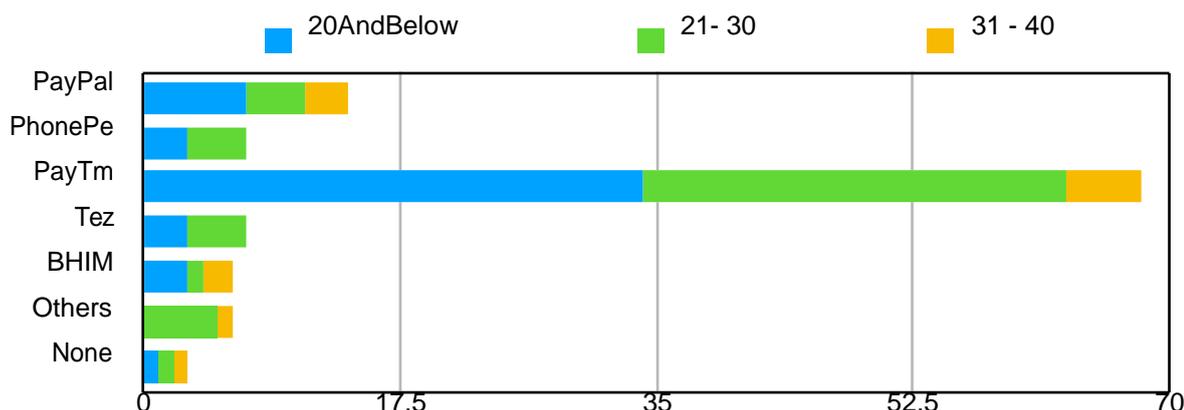


Exhibit 7: Line graph showing the online applications used

Summary of Findings

- There is a slow movement towards usage of online applications, and payment modes for any transactions, this could be due to the ease of internet access and the strong security features added onto applications, postdemonetisation.
- For larger transactions, it was observed that the sample population mostly preferred online transactions, showing a slow movement towards a less casheconomy.
- For travel expenses incurred abroad, most of the sample population use technology, and online payment modes for transactions.

- From the sample population, it can be observed that half of the individuals make online payments daily.
- PayTm, PayPal, PhonePe, are the widely used phone applications, by majority of the sample population.
- More than half of the sample Population agreed to have found the phone applications to make transactions to beuseful.
- Majority of the population find it discouraging to use online payment applications, since it has a factor of transaction charges, while making thepayment.
- Very minute number of the sample population have claimed online transactions are difficult to implement. Most of the population have agreed to find it simple to make onlinepayment.
- Acceptance towards a completely cashless economy would cause inconvenience to majority of the population, as making small payments would be easier with physical notes. However, most of the sample population are willing to move towards a less cash economy, ifimplemented.

Conclusion

A less cash economy is feasible, practical and much more efficient than a cash-based economy and a completely cashless economy. It can be observed that people are open towards the concept of a less cash economy and find it easier to adapt to. A less cash economy would boost the Nation's economy as the cost of making and handling paper money will be reduced. A less cash economy reduces terrorist activities as most of the terrorist activities are fueled by unaccounted money in hard cash and helps control the problem of fake money.

India is one of the largest markets for smartphones and mobile applications, providing a easy transition towards a less cash economy. The local markets have already accepted the transition into paperless transactions. Banks and Payment Gateways are soon shifting towards payments through smart phones. Therefore, it can be observed from the research that both at the individual and national level, there is a conscious effort to move from a cash-based society towards a cashless economy.

Suggestions

- The movement towards a less cash economy is slow, but the country is getting there. The Government should take proper initiatives to make the transition smoother and faster.
- Further simplifying payment applications on the phones, and online payment methods will help the senior members as well as individual's illiterate to technology, participate and contribute towards a less cash economy, or a cashless economy.
- Since travelling has become an extensive and an expensive affair, if payments could be made online, tracking the same would be easier. Also, the Tourism Departments of all states can contribute to a changing economy by encouraging online payments and making a comprehensive mobile application for facilitating simpler transactions.
- Transaction charges should be minimized to encourage online transactions.

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