

## **Opportunities and Challenges of Transition to a Cashless Economy**

**By**

**Dr. Ruchi Gupta**

Supervisor, Faculty of Commerce and Management, Apex University, Jaipur

**Prachi Mallick**

Research Scholar, Faculty of Commerce and Management, Apex University, Jaipur

### **Abstract**

In a cashless economy, most transactions take place online utilizing credit cards, debit cards, e-wallets, and other digital payment methods (such as ECS, NEFT, RTGS, USSD, UPI, and Aadhar-based payment systems). India is making a concerted effort to transition to a cashless transaction economy by reducing the use of actual currency. Eliminating black money is the main benefit of developing a cashless economy. The best method of moving to a cashless economy is to digitize transactions. The recent demonetization activity has shaken the rusty cages of a cash-based economy and prompted people to reconsider the medium of transaction and commerce. The demonetization push was previously referred to be a method of addressing the issue of counterfeit money and black money. The focus of this essay is on the potential and problems that the cashless economy in India presents.

**Key-words:** Cashless economy, Digital Economy, Payment, Electronic payment

### **Introduction**

In a cashless economy, transactions are made using digital tools (such as mobile wallets, debit cards, credit cards, or net banking) rather than actual currency. As a result, the sorts of cashless economies in each nation will be determined by the country's predominant digital payment system. With the launch of the government's Digital India programmed, the cashless economy in India has grown significantly. This flagship plan aims to turn India into a knowledge economy and society that is enabled by technology.

India has recently adopted several significant national-level actions, such as demonetization and Aadhaar registration, that are intended to benefit the economy more broadly. The foundation of this was always striving towards a "cashless society," and we sped up towards that objective during a worldwide health emergency, Covid-19.

Due to the pandemic, the country has adopted digital technology quickly in the last two years. The adoption and normalization of digital payment methods have improved with the development of the fintech industry. They are now more secure, precise, subject to stricter governmental regulations, and easy for the average person to use. Financial inclusion is one of the government's top goals, and as digitalization and financial support are given to the industry, digital knowledge is rising. Millions of unbanked and underbanked individuals around the nation are receiving hope from financial inclusion, which is pointing them in the direction of a better life.

Government initiatives like the Jan-Dhan and Aadhaar program, along with enhanced digital infrastructure, have made it easier for the average person to make the switch to a cashless

economy. Aadhaar was the first significant development, followed by UPI. Then there was FASTag for toll payments without cash. With the aid of cutting-edge digital technology, the government has carried out several initiatives to improve connectivity.

As a whole, even though the transition to a cashless economy has the potential to have numerous beneficial implications, it will necessitate a concerted effort to overcome certain roadblocks and ensure all facets of society are able to engage fully in the digital economy.

### ***Purpose of the Study***

1. Clarification of the cashless economy concept
2. To be familiar with the methods of cashless transactions
3. To comprehend the positive and negative consequences of a cashless society

### ***Research Methodology***

The study relies on secondary sources of data and knowledge. For the study to be successful, a variety of books, journals, newspapers, and pertinent websites have been studied.

## **Methods of Cashless Transaction**

The Digital India plan is a crucial initiative of the Indian government with the goal of transforming India into an economy that is empowered by technology. The main slogan of Digital India is "Faceless, Paperless, Cashless." A variety of digital payment options are available as part of the effort to promote cashless transaction systems and turn India into a cashless economy. They are listed below.

1. **Cards:** The most widely utilized cashless payment options are debit and credit cards. They enable customers to make payments instantly using their credit cards or bank accounts.
2. **Mobile wallets:** Mobile wallets let users keep their debit or credit card information on their smartphones and utilize those devices to make purchases. Examples of such wallets include Paytm, Google Pay, BHIM.
3. **Online banking:** Online banking enables users to pay bills, make purchases, and electronically transfer money between bank accounts.
4. **Unified Payments Interface (UPI):** A smartphone app is used to immediately transfer money between bank accounts utilizing UPI, a real-time payment system.
5. **Aadhaar Enabled Payment System (AEPS):** This is a recently created alternative to cashless payments. It is among the more reliable and open cashless payment options. AEPS uses Aadhaar authentication, similar to a micro-ATM. To complete transactions, you need a smartphone and a fingerprint scanner. To access this feature, you must link your Aadhaar card number to your bank account.
6. **Gift cards and travel cards** are examples of prepaid cards that let customers load money onto the card before making purchases.
7. **Point of sale (POS) terminals:** To handle debit and credit card payments, POS terminals are computerized tools. They are frequently utilized in eateries and retail establishments.
8. **Payments made with QR codes:** A smartphone is used to start a payment by scanning a QR code. In nations like China and India, this technique is widely employed.

Overall, there are a number of cashless transaction options accessible, each with pros and cons. Choices for payment methods frequently depend on elements like availability, convenience, and security.

***Indian Economy's Cashless Opportunities:***

1. Improved effectiveness: Efficiency is increased since transactions can be handled instantaneously without the need for actual currency handling, which can cut down on wait times and transaction times.
2. Savings: By eliminating the need for printing, holding, and transferring actual cash, a cashless society can save money. Additionally, it can lessen the possibility of monetary fraud.
3. Higher transparency: Transparency is increased because digital transactions leave a distinct digital trail, which makes it simpler to keep track of and monitor financial activity. By doing this, fraud and corruption may be avoided.
4. Enhanced financial inclusion: People without access to traditional banking services can use digital payment systems to participate in the economy and enhance their financial security.
5. Higher level of comfort: Consumers can conduct transactions more conveniently because digital payments can be made at anytime, anyplace.
6. Decreased criminal activity: As there is fewer actual cash to take, a cashless economy can help lower the frequency of crimes like theft and robbery.
7. Boosted tax revenue: Governments can trace and collect taxes more easily, which lowers the likelihood of tax evasion and boosts revenue.

***Indian Economy's Cashless Challenges:***

1. Insufficient familiarity with digital technology: the majority of people in India still struggle with basic digital literacy, making it challenging for them to comprehend and utilize digital payment methods.
2. Framework: the required framework for digital payments, including internet access and point-of-sale systems, is lacking in many sections of India, especially rural areas.
3. Cybersecurity concerns: employing digital payments exposes vulnerable individuals to identity theft, phishing scams, and other types of cybercrime.
4. Monetary-based culture: it may be taxing to upend India's long-standing culture of cash transactions.
5. Commercial approval: many businesses, especially small ones, can lack the technical know-how or infrastructure needed to take digital payments.

## **Conclusion**

The benefits of this change have already started trickling in with more and more people converting to digital forms of receiving and making payment. India is making the switch from a cash-based to a cashless economy. Digital transactions are easily taxable and traceable, thus there is less room for the circulation of illicit funds. In terms of financial transactions, the entire nation is becoming demonetized, with e-payment services experiencing an unparalleled upsurge. People are becoming proficient at using electronic payments at a faster rate than ever before because so many businesses, even street vendors, are doing so.

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