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## **Digitalization- A way towards cashless economy**

**Shaweta Passi and Dr. Viplove Kundra**

### **Abstract**

The current policy decision by the government of India to undertake the faster economic development is the endorsement of currency less economy or cashless or digital economy. The current Demonetization strategy inventiveness by the government of India helps the lucidity in the governance organization by hopeful cashless payments or digital payments. Digital India is the policy of the government to amalgamate all actions in a digital approach. The present paper intends to scrutinize the impact of digitalizing Indian economy and understand challenges and opportunities of digitalization. Monetary Literacy is a obligation to bring more and more public to digital podium. Digital payment or payment through banks, in place of paying cash should be supported for a cashless culture.

**Keywords:** Digitalization, Digital Economy, Digital Payments, Digital India, Digital population, cashless.

### **Introduction**

The government of India has imposed a drastic change in the economy by terminating the five hundred and thousand rupees on November 8, 2016. The demonetization has four different aspects like fight with corruption, black money, counterfeit currency and funding for terrorist activities in the country. Now in the present epoch considerably changed information and communication technology leads to make a positive effect on the economy. Digital economy refers to an economy that is based on digital incorporated technologies. The digital country may also be called as Internetor web country. The Internet economy has affected all the sectors in the economy. The digitization has resulted in employment generation, improving the standard of living and it boosted the government to operate with greater transparency and accountability. The government has implemented a major change in the economy by demonetizing the high value currency notes. Digitization helps government to function with greater lucidity and competence, and it has a spectacular effect on economic growth, but not all at once (Saima Khan & *et al.* 2015). It has impacted all the sectors of the economy and social activities, for example: retail, transportation, financial sector, manufacturing field, education, healthcare, media and so on.

In the contemporary scenario, our nation is set to emerge as one of the world's most booming and promising economies. India is largely an agrarian based rural economy with a main unorganized sector and 68.84 per cent of India's population living in rural areas. The informal sector accounts for 20 per cent of the GDP and 80 per cent of employment. Rural areas are home to two thirds of the country's population where much of the challenge is to achieve cashless transactions for the rest of the decade. It is estimated that rural residents will constitute about half of all internet users in 2020. Number of connected rural consumers is expected to increase from 120 million in 2015 to almost 315 million in 2020. It is appealing to note that rural growth is expected to significantly outpace growth in urban centers. Over 93 per cent of population of rural India have not done any digital transactions. So the real potential lies there. It is, indeed, the future for the Indian economy. RBI figures for July

2016 show that banks had issued 697.2 million debit cards and 25.9 million credit cards to clients after deducting withdrawn or cancelled cards. Moreover, cards are used only for three main purposes-withdrawing money from ATMs, making online payments and payments at point of sale (POS) terminals at shops, restaurants, fuel pumps etc. Merely 26 per cent of India has internet access, and there are only 200 million users of digital payment services. A statement by Google India and Boston Consulting Group showed that last year around 75 per cent of transactions in India were cash-based while in countries like the US, Japan, France, Germany etc it was around 20-25 per cent.

### **Digital population in India (2017)**

The digital users like active internet users, active mobile internet users, active social media users, active mobile social media users. The internet users are more compared to other user's i.e. 462.1 million.

### **Retail E-commerce sales in India**

The retail e-commerce sales in India from 2016 and 2017 are 16073 million and 20059 million respectively. The estimated sales in e-commerce sector, in 2022 it is expected to increase 52301 millions.

### **Digital buyers in India**

The digital buyers in India from 2014 to 2017 were 54, 93.4, 130.1, and 180. respectively. The estimated digital buyers 2018, 2019 and 2020 are 224.1, 273.6 and 326.1 million respectively.

### **Digital India**

The digital India programme is a programme of the government of India with a visualization to change India into digitally empowered society and knowledge economy. The faceless, paperless, and cashless are the professed roles of digital India, in order to promote the digital payments or non cash transactions, various modes or methods of payments are available such methods like banking cards, USSD, Mobile Wallets, Banks Prepaid Cards, Internet Banking, Mobile Banking etc.

### **Digital economy**

Digital economy system of a country which is based on digital computing technologies. The Technopedia defines the digital economy is a term for all of those economic processes, dealings, exchanges, and actions that are based on digital technologies.

### **Impact of Digitalizing on Indian Economy**

Digital India is the dream project of Government of India to make Indian economy as a knowledge economy. The Digitalization of Indian economy leads to increase employment opportunities, improvement in the standard of living, reduction in risk and uncertainty and also it helps to increase the literacy in using new technological operates.

### **Challenges of a Cashless Indian Economy**

1. Cash in circulation amounts to around 13 per cent of India's GDP.
2. Nearly 95 per cent of transactions take place in cash.
3. Nearly 92 per cent of ATM cards are used for cash withdrawals and not for settling online transactions.

4. According to RBI, there are 1.44 million PoS terminals installed by various banks across locations at the end of July 2016.
5. For digital transactions, internet connection is needed. But in India, there is poor connectivity in rural areas. In addition to this, a lower literacy level in poor and rural parts of the country, make it problematic to push the use of plastic money on a wider scale. This is being overcome by application BHIM (Bharat Interface for Money) launched by the Prime Minister which will work on USSD i.e. without mobile internet.

Top private lenders ICICI Bank, Axis Bank, HDFC Bank and Yes Bank have been expanding their presence in unbanked and under banked areas over the past five years. RBI has asked banks to prioritize opening of branches in unbanked rural centers (Tier-V and VI). It has asked them to allocate at least 25 per cent of the total number of new branches to these areas.

### **Provisions for digitalization of economy**

#### **RBI backs move to encourage e-deals (Jun, 27, 2015)**

Earlier this month, the government released a draft proposal that, if accepted, will see income tax benefits for consumers, who predominantly use electronic transactions for payments.

#### **Boost to cashless payments (Feb, 25, 2016)**

To promote payments through cards and other electronic means to check tax evasion and transition towards a cashless economy. Also no extra charges on tickets booked on IRCTC website or on payment of water, telephone, electricity bills

#### **Tech-savvy Indians shop with 'cashless' wallets (Mar, 07, 2016)**

Growing popularity of e-payments and mobile wallets among the youth in the country. This makes RBI's work easy to bring in accountability and transparency in each financial transaction

#### **Start-ups find fuel in digital banking project (Apr, 18, 2016)**

To bring digital banking to 1.2 billion people in the country. Also to allow anyone with a bank account to quickly create a virtual payment address. The money can be transferred using just the phone number or the Aadhaar number. It is built on Immediate Payment Service (IMPS) which has lesser charges as compared to Credit and debit cards.

#### **Electronic Funds Transfer (NEFT) (Jul, 19, 2016)**

Money transfers are made via electronic messages. The bank details of the sender and the beneficiary are linked using bank branch name and IFSC code. When a payment is initiated, the payer's bank sends a 'message' to its NEFT service centre. All such messages are pooled every hour and the bank's NEFT centre sends it to the RBI, which initiates the transfer.

### **Benefits of Cashless Economy**

Kenneth Rogoff, a Harvard economist, argues that most of the cash in advanced economies is floating around in the "world underground economy"

1. Cash facilitates drug trafficking, human trafficking, extortion, money laundering and illegal colonization

2. In a cashless society, people would be forced to eliminate savings from under their mattresses and keep them in the bank
3. No cash means security from burglars
4. More electronic dealings would be good for sanitation (banknotes carry an assortment of germs)
5. It aids the Government to collect suitable tax revenues
6. It can efficiently detect, and help restrain, unlawful transactions
7. It will give us a better estimation and understanding of the huge unorganized sector in India
8. last, but not the least, it will aid plug the 'leakages' in diverse government programmes

### Indirect Benefits

There are three separate yet important indirect benefits from promoting cashless transactions in India. These are:

1. It will approve financial addition;
2. It will keep records of financial transactions; and
3. It will lower operation costs involving any two parties engaged in a financial transaction.
4. While the last surveillance is in general true for any economy, the first two are particularly pertinent for India. Gangopadhyay (2009) shows that more than half the Indian population is not financially included. There are about 7.8 bank branches for every 100,000 people in India, less than 3 branches per 100 square kilometers.

### Disadvantages

Cash is empowering for millions of unbanked families

It is an intuitive method of exchange and acts as a store of value

It doesn't come with the transaction cost of electronic payment methods

Possibility of a Big Brother government getting hold of consumer data and using it for political agenda

Hackers continuously test security systems, therefore, entrust savings to financial institutions is not an easy decision

### Facts about Cashless Society

1. Current cash flow deficit induce people to make digital payments
2. Without proper safety measures and security plans, the highly reactive nature of cyber security leaves us susceptible to cyber attacks
3. Past records: Financial data breach in India, uncovered late October, had compromise the financial facts of over three million users and victimized major banking companies
  - Breach occurred when a network of Hitachi ATMs infected with malware enabled hackers to steal users' login testimonial and made illegal transactions
  - Hackers breached a British mobile company, Three Mobile's database
  - This put at risk the private data of six million users, which was later used to purchase mobile accessories at the users' expense
  - Security of online transacting companies: PayTM, is certified under the Payment Card Industry Data Security Standard (PCI DSS) 2.0 certification
  - PCI DSS is current industry security standard set by American Express, Visa International, MasterCard Worldwide – an essential certification

- These companies use 128-bit encryption equipment to vault any information transfer between two systems
- It takes more than hundred trillion years to crack a password under 128-bit encryption!
- Cyber threats: Other uses for stolen data include secretive sales, individuality theft, or targeted personal attacks such as extortion
- Producing fake mobile applications and spyware that steal information, or social engineering plans that make us disclose our login credentials
- Forums on Internet are filled with step-by-step directions on how to create forged websites that duplicate digital payment platforms
- Steps to control cyber theft: Companies that offer digital basis should enhance wakefulness among their clients of the risks, and instruct them on methods to protect themselves
- They must be practical in looking out for any counterfeit applications or websites that pretense their functioning
- Government should check if the current policies modifiable these platforms are ample and be updated on regular basis
- Customers must check the Website's genuineness by searching for proper spell check of the Web address
- Check if the Website is protected by looking out for a green dead bolt symbol on the left side of the Web address, and keep Web browsers efficient so they can recognize illicit sites effortlessly.

### Conclusion

There is a great number of nodal point of communication amid a inhabitant and the Government. For instance, payment for passports may be made obligatory through cashless method (online payments or bank drafts). Also, payments of different taxes (income, sales or excise duties) can be made mandatory through cashless modes. In addition, a tax rebate (of say 1 per cent to 2 per cent) on payments made by household as wages to unorganized segment (domestic servants, sweepers etc) can boost up cashless payments. Government should promise basic supplies in rural areas and ponder on developing infrastructure. Fiscal Literacy is a must for bringing more and more public to the digital platform.

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