The Effect of Digitalization on The Cashless Economy and Financial Inclusion in India: prospects and challenges

Shikha Dubey¹ *, Dr. Ajay Dwivedi²

¹ Junior Research Fellow, Department of financial studies, Veer Bahadur Singh Purvanchal University Jaunpur, Uttar Pradesh, India (222001).
² Professor, Department of financial studies, Veer Bahadur Singh Purvanchal University Jaunpur, Uttar Pradesh, India (222001).
*Corres. Author: dubeyshikha27@gmail.com

Abstract

Purpose: Cash is flowing like water in the Indian economy for decades, it's irreplaceable of a sudden. Gradually India is shifting towards cashless transactions and digitalization is playing the role of a key. However, if we look at the financial inclusion aspect, it is not satisfactory in any way. On one hand, affluent or middle-income families are so well suited to modern digital financial infrastructure as it makes money transferring inexpensive, convenient, and far less time-consuming. On the other hand, we see that poor people are more compatible with cash and tangible goods only; the key factor behind it is digital illiteracy and lack of confidence. In this modern age of digitalization and cashless transfers, financial inclusion is thus in threat, until we do the inclusion of poor and rich on the ground of digital literacy.

Design/ methodology/ approach: On the basis of evidence and knowledge gathered from primary and secondary sources, the paper conducts a survey systematic analysis.

Research objective and implications: To study the status of financial inclusion and people’s inclination toward cashless transactions and to explore the effects of factors related to a transition to cashless payments in India, technological issues, user-oriented factors of cashless payments in India. This paper would help to illustrate to several regulators, academics, government officials, and different stakeholders in society the implications of new technology for the cashless economy and financial inclusion in India.

Keywords: Cashless Economy, Financial Inclusion, Digital Financial Infrastructure, Digitalization.
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Vpliv digitalizacije na brezgotovinsko gospodarstvo in finančno vključenost v Indiji: obeti in izzivi

Povzetek

Namen: Gotovina v indijskem gospodarstvu že desetletja teče kot voda, je nenadomestljiva. Postopoma se Indija premika k brezgotovinskim transakcijam, digitalizacija pa igra ključno vlogo. Če pa pogledamo vidik finančne vključenosti, to nikakor ni zadovoljivo. Po eni strani so bogate družine ali družine s srednje visokimi dohodki pripravljene za sodobno digitalno finančno infrastrukturo, saj omogoča, da je prenos denarja poceni, priročno in veliko manj zamudno. Po drugi strani vidimo, da so revni ljudje bolj usmerjeni zgolj v gotovino in otipljive dobre; ključni dejavnik tega pa je digitalna nepismenost in pomanjkanje zaupanja. V sedanji moderni dobi digitalizacije in brezgotovinskih prenosov je zato finančna vključenost ogrožena, dokler ne vključimo revnih in bogatih na podlagi digitalne pismenosti.

Zasnova / metodologija / pristop: Na podlagi dokazov in znanja, zbranih iz primarnih in sekundarnih virov, v članku opravimo sistematično analizo.

Cilj raziskave in posledice: preučiti stanje finančne vključenosti in nagnjenost ljudi k brezgotovinskim transakcijam ter raziskati učinke dejavnikov, povezanih s transakcijo, na tehnološka vprašanja in dejavnike, usmerjene k uporabnikom, na brezgotovinsko plačevanje v Indiji.

Ta članek bi več regulatorjem, akademikom, vladnim uradnikom in različnim zainteresiranim stranem v družbi ponazoril posledice nove tehnologije za brezgotovinsko gospodarstvo in finančno vključenost v Indiji.

Ključne besede: brezgotovinsko gospodarstvo, finančna vključenost, digitalna finančna infrastruktura, digitalizacija.
Introduction:
Transactions are vital for economic operations and cannot be ignored while addressing efficiency concerns. Efficient transactions save time and money by minimizing the usage of a tangible or intangible resource. Speed saves time, convenience saves human energy, and cost-effectiveness, and it reduces the wasting of material resources. Such efficiencies encourage the adoption of a digital transactional system. In this regard, electronic payments are efficient.

Financial institutions, like banks, that are accountable for intermediating and managing transactions, see increases in productivity and lower costs as a result of this efficiency. The concept of a cashless economy is admirable in and of itself, but all of these challenges and possible threats must be considered. Transactions that are required to carry out without the exchange of physical cash are advantageous in terms of regulating and controlling the flow of currency. Online transactions not only make things easier, but they also help the economy grow. To reduce the usage of real currency in the economy, the Reserve Bank of India (RBI) and the Indian government are supporting digital payment devices and modes, such as prepaid instruments and cards. The RBI's efforts to promote these new payment and settlement systems are geared toward realizing the goal of a cashless economy. The share of online transactions in overall non-cash payment system volume climbed to 97.0 percent in 2019-20, up from 95.4 percent the previous year. Nonetheless, the ongoing lockdown imposed by the COVID-19 illness epidemic stifled economic growth and reduced voluntary transactions, resulting in a drop in internet transactions. (M.rbi.org.in., 2021)

The future of cashless India appears to be bright, since the public's reaction to the government's decision, as well as their support for it, indicates that the government's initiative is likely to succeed. Through e-commerce transactions and digital payment gateways, the economy's transparency will improve, increasing GDP. This will boost the country's legitimacy and attract more investment. This cashless initiative will have far-reaching consequences, assisting Prime Minister Modi in realizing his goal of a Digital India.

Literature Review
1. Waseem (2018): When it comes to cost and time management, cashless exchange saves time. The government must also seek to improve overall infrastructure so that an ever-increasing number of individuals can do cashless transactions and other internets.
2. Gourab and Nishant (2020): Online banking has the potential to dramatically change the landscape of unbanked population’s economic interconnection and help its financial inclusion.
3. Bappaditya (2016): Lower currency cost of maintenance, financial recordkeeping, and better taxation systems, financial inclusion, limiting fund seepage are some of the economic benefits of going cashless for India.
4. Rudresha (2019): The concept of cashless transactions is widely accepted. It aids in the fight against large illegal or unethical economic activities such as terrorism, corruption, and money laundering, among others.
5. Bappaditya (2016): Cashless payments are being used by a considerably bigger percentage of people, and mobile payments have accounted for the majority of the growth in cashless payments.
6. Renita (2018): Given how quickly currency is becoming obsolete in today's market, banks and other financial institutions will need to rethink their business processes and operations to include the smartphone as a point of reference. This will enable the digitalization of financial intermediation transactions.
Objective:
- To study the status of financial inclusion and people’s inclination to cashless transaction.
- To explore the effects of factors related to transition to cashless payments in India as technological issues, user-oriented factors of cashless payments in India.

Research Methodology:
The study emphasis is on primary and secondary information. The questionnaire approach was used to gather primary data. The questionnaire was designed relying on the research participants’ prior experience and an analysis of relevant literature upon the subject matter.

Findings:

Financial Inclusion and cashless transaction:
Financial inclusion not only promotes economic development, but also allows people to participate in the growth process and share in the benefits that result from the effective and smooth mobilization and allocation of resources. Financial inclusion, in its most basic form, refers to having easy and affordable access to official savings and investment accounts, as well as credit facilities. Financial inclusion continues to evade large parts of the Indian population, particularly in rural regions, even in this form. In India, there are three main reasons for financial exclusion: Poor physical access (low penetration of bank branches and ATMs); lack of financial access (high credit interest rates, little savings, making bank accounts unviable); and low financial knowledge.

Many rural residents, as well as some city dwellers, nevertheless lack access to a bank account that allows them to make online payments. In our study, we found that approximately 89% of the respondents have their bank account whereas the remaining 11% are still unbanked. In which approximately 65% have adopted cashless transactions and the remaining are still not comfortable doing so.

Factors that affect cashless transactions

Convenience: The convenience of making financial transactions is likely the most compelling reason to go digital. You won't need to carry large amounts of cash, plastic cards, or even wait in lines for ATM withdrawals. In our study, we found that 86% of the sample find digital transactions more convenient and less time-consuming than the traditional ways of payment that mainly involve cash. Electronic payments will allow businesses to expand their consumer base to include people from all over the world, resulting in more business transactions.

Transparency and accountability

Transparency and accountability will be improved with electronic payments. The majority of cashless societies are devoid of corruption since all transactions are tracked, observable, and transparent. Making online payments is convenient, and it will result in slimmer wallets because consumers will not need to carry cash. The amount of revenue collected will also increase, allowing it to be used for the welfare of the impoverished and underprivileged, as well as economic infrastructure development. Counterfeit cash production will be reduced, and terrorism will be avoided.

Transaction Cost and Procedures: In terms of handling costs and waiting times, digital business is a godsend. If properly satisfied, it will raise fasting and output rates, hence boosting the economy still. High transaction costs, according to 69 percent of respondents, are the reason for the limited adoption of cashless transactions, particularly in rural areas. It was also shown that the majority of
respondents (55%) find the transaction process difficult to adopt, making cashless transactions difficult.

Financial disclosure and Data threat: most of the respondents (~91%) agree that the major threat in the cashless transaction is related to data leakage; data safety is the biggest concern among users and it is the reason that most of the users hesitate to disclose their financial data. Hacking and cyber theft are important and difficult issues that might arise as a result of online transactions. To prevent money from falling into the wrong hands, cybersecurity measures must be implemented.

Digital illiteracy: Digital illiteracy is one of the biggest challenges that India needs to be traced before moving cashless as ~76% of the respondents believe that there is digital illiteracy and people in rural areas aren't well-informed on the digital payment system.

Internet connectivity and Digital Infrastructure: More than half of the population is still unable to operate a computer. People in rural areas are still unaware of smartphones. Furthermore, internet access is scarce, and a country cannot go cashless without it. In our study, we found that ~89% of the sample agrees that poor internet connectivity obstructs cashless transactions not only in rural areas but in urban areas too. There are still a lot of rural and urban places where getting a 2G network is quite tough. Furthermore, as compared to developed countries, the cost of Internet access is extremely high.

Even now, certain establishments only accept paper money and do not accept debit or credit cards. Customers find it difficult to make purchases using their cards in such areas. Because they cannot afford to invest in digital infrastructure, small shops in India still deal only in cash.

Conclusion

One of the good and powerful decisions made by the Indian government is the adoption of a cashless transaction economy. The concept of a cashless transaction system is widely accepted. It aids in the fight against large illegal or unethical economic activities such as terrorism, corruption, and money laundering, among others. However, the biggest issues with cashless transactions in India are cybercrime and unauthorized client access. As a result, it is critical to improve internet security to protect against cybercriminals. Customers and small businesses are exposed to a significant level of danger and difficulty when using cashless transactions. The fundamental reason is that rural areas have a low literacy rate. The government should be educated on the benefits of cashless transactions. The government strives to change people's minds about risk factors. Cashless transactions aid in the development of a stronger Indian economy.

As a result, everyone should be able to access and use digital transactions. The government will need to devote additional resources to financial literacy campaigns from time to time to educate the public about the advantages of electronic payments.
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