

## Research Paper



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## A STUDY ON THE BENEFITS OF FINANCIAL INCLUSION AND CASHLESS ECONOMY FOR INDIA

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### ABSTRACT

The economic environment of India has witnessed a significant changes in the past three and a half years. Many policy reforms are introduced by the government to accelerate the growth rate of the economy. Economic growth of the country depends on various factors and it can be measured in several aspects. Macroeconomic variables like GDP, standard of living, per capita income, performance of SSI sector etc reflects the economic growth. However there are barriers to achieve a good economic growth like parallel economy, money laundering etc. These activities bring down the growth rate of any country and series of steps are taken by the government to bring down those illegal activities. Any country can attain development only when it has economic growth and the growth should be an inclusive growth. This research paper brings out the various benefits of economic reforms named financial inclusion and cashless economy introduced by government of India and discusses how these benefits will contribute to long term economic growth and development.

**KEYWORDS :** Economic growth, parallel economy, financial inclusion and cashless economy

### INTRODUCTION

The objective of sustainable development can be achieved only when people from all section of the society take part in economic transactions. Lack of awareness and financial illiteracy as a barrier to the economic growth as majority of the population had problems in accessing to the formal credit. To overcome this, financial inclusion came into picture. Similarly economic growth is also hindered by problems like parallel economy transactions and allied illegal activities. To overcome this barrier, government wants people to move towards cashless transactions and transform cash based economy to cashless economy. Some pioneering definitions of financial inclusion and cashless economy are given below

According to the Planning Commission (2009), Financial inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other

financial services such as insurance and equity products. The household access to financial services includes access to contingency planning, credit and wealth creation. Access to contingency planning would help for future savings such as retirement savings, buffer savings and insurable contingencies and access to credit includes emergency loans, housing loans and consumption loans. On the other hand, access to wealth creation includes savings and investment based on household's level of financial literacy and risk perception.

GOI (2008) defines Financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. The meaning of financial inclusion is delivery of financial services to the low income groups especially the excluded sections of the population with the provision of equal opportunities. The main target is



the access of financial services for better standard of living and income.

According to Chakraborty (2011), Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society including vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players.

“A cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal.”

A Cashless Society describes an economic state whereby financial transactions are not conducted with money in the form of physical banknotes or coins, but rather through the transfer of digital information (usually an electronic representation of money) between the transacting parties.

## LITERATURE REVIEW

According to Alvares, Clifford (2009) in their reports The problem regarding fake currency in India. It is said that the country's battle against fake currency is not getting easier and many fakes go undetected. It is also stated that counterfeiters hitherto had restricted printing facilities which made it easier to discover fakes.

Jain, P.M (2006) in the article E-payments and e-banking opined that e- payments will be able to check black An Analysis of Growth Pattern of Cashless Transaction System. Taking fullest advantage of technology, quick payments and remittances will ensure optimal use of available funds for banks, financial institutions, business houses and common citizen of India. He also pointed out the need for e-payments and modes of epayments and communication networks.

Subbarao (2013) highlights that financial inclusion provides opportunity for the poor to improve their incomes and quality of life. For the suppliers of the services viz., the banks, it provides steady low cost savings. State can also benefit from financial inclusion as it helps to better channelization of funds and thereby reduce poverty.

The cashless economy is a system in which transactions are not done predominantly in exchange for actual cash (Akhalumeh & Ohiokha, 2012), It is essentially a mobile money payment system which allows users to make payment through GSM phones with internet facilities. This system increases convenience, create more service options, reduces risk of cash- related crimes and provide cheaper access to banking services and access to credit (Yaqub, et al, 2013).

## OBJECTIVES OF THE STUDY

The main objectives of the study are as follows

- To understand the concept of financial inclusion and cashless economy
- To identify the benefits of financial inclusion.
- To identify the benefits of cashless economy.

## RESEARCH METHODOLOGY

This study is in the form of descriptive research. The study uses data from both primary and secondary sources. Different books, journals, newspapers and relevant websites have been consulted in order to make the study an effective one.

## SAMPLING DESIGN

Random sampling has been used for collecting data. A sample of 30 respondents has been surveyed for this study. The sample includes the responses of higher bank officials who are experts in the knowledge of financial inclusion and the samples also include experts with sound economics knowledge.

## STATISTICAL DESIGN

The statistical technique used for this study is factor analysis. **Factor Analysis** is a method for modeling observed variables, and their covariance structure, in terms of a smaller number of underlying unobservable (latent) "factors." The factors typically are viewed as broad concepts or ideas that may describe an observed phenomenon. For example, a basic desire of obtaining a certain social level might explain most of the consumption behavior. These unobserved factors are more interesting to the social scientist than the observed quantitative measurements.

## GEOGRAPHICAL DESIGN

The study is based on the responses of bank officials in Chennai city.

**DATA ANALYSIS AND INTERPRETATION****TABLE SHOWING KEY BENEFITS OF FINANCIAL INCLUSION IN INDIA****Rotated Component Matrix<sup>a</sup>**

	Component		
	1	2	3
Increase in financial products demand	.856		
Accessibility of banking finance to rural areas	.834		
Growth in GDP	.764		
Capital formation	.758		
Direct distribution of subsidies		.808	
Increase in profits of the bank		.783	
Widermarkets for smart cards		.715	
Brings additional savings in the economy			.876
Channel Management			.751

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 4 iterations.

**Component Transformation Matrix**

Component	1	2	3
1	.954	.267	.134
2	-.298	.839	.456
3	.009	-.475	.880

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser

Normalization.

**INTERPRETATION**

From the above table it is clear that the major benefits of financial inclusion are increase in demand for financial products, growth in GDP, capital formation and accessibility of banking finance to rural areas. This is true because the major objective of financial inclusion is to achieve inclusive economic growth.

When majority of the population come into financial inclusion process, they become more aware about the various financial products available to them. The various benefits of variety of financial products will stimulate them to go those financial products that best suit them. Thus the demand for the financial products increases as a result of financial inclusion process.

When more people become aware of financial products and services, it is expected to increase the banking transactions. This will lead to opening of new bank accounts by those who do not have such accounts earlier. Thus the savings of the people is brought into the economy. More savings results in more capital

investment which in turn results in better productivity. This better productivity will result in more demand for the products and the cycle continues resulting in economic growth which is reflected by GDP. As a result of financial inclusion, more rural people get access to banking finance as it is also considered as one of the ways of bringing various sections of the people under one roof named financial inclusion.

The second set of benefits of financial inclusion is brings additional savings into the economy which was discussed above and also helps in channel management. Due to the increased banking transactions rather than physical cash transactions, retailers and other business people will move from the physical distribution channels to electronic channels which helps in better channel management for small business people and it will also help the government in tracking the transactions going on in the economy.

The third sets of benefits are direct distribution of subsidies which overcomes the leakages in the

amount of subsidies happened when it is physically distributed. Increase in financial transactions means more customers for banks, more volume of business

and results in increase in profitability of banks. Finally, financial inclusion is expected to increase the markets for smart cards in the country.

### TABLE SHOWING KEY BENEFITS OF CASHLESS ECONOMY

Rotated Component Matrix<sup>a</sup>

	Component		
	1	2	3
Exposure to financial services	.860		
Avoidance of carrying cash	.730		
Tracking money laundering and allied activities	.654		
Convenience in handling Financial transactions	.652		
Fall in parallel economy transactions	.579		
Increased security of funds	.531		
Increased Public Spending		.760	
Eliminate counterfeit currencies from the economy		.747	
Stop leakage of money		.731	
Decrease in illegal transactions		.699	
Increased business for banks			.822
Encourages opening of bank accounts			.768

Extraction Method: Principal Component Analysis.  
 Rotation Method: Varimax with Kaiser Normalization.  
 a. Rotation converged in 5 iterations.

Component Transformation Matrix

Component	1	2	3
1	.747	.614	.255
2	-.545	.347	.763
3	.380	-.709	.593

### INTERPRETATION

The above tables reveal the various benefits of being a cashless economy. The major advantages of becoming cashless economy are exposure to financial services, avoidance of carrying cash, tracking money laundering activities, convenience in handling financial transactions, fall in parallel economy transactions and increased security of funds. When the economy becomes cashless, people are exposed to digital transactions which expose them to various kinds of financial services offered by banks and other institutions. Similarly the cashless economy reduces the burden of carrying physical cash. This helps in avoiding theft and also helps in avoiding longer queue in the retail shops or other shopping malls. Money laundering and illegal activities are considered to be the burden for economic growth of any country. When a economy

becomes cashless, government will be able to track various transactions happening in the economy as they take place online. This will help them in tracking various money laundering and allied illegal activities because of the previously established mechanism by the government to prevent them. Cashless transactions provide people with psychological satisfaction of security of their funds rather than if they keep it in the form of physical cash. The cashless economy helps in better handling of financial transactions as all transactions are recorded electronically and reduce parallel economy normally what is referred to as black money transactions in the economy. This fall in parallel economic transactions moves the country toward economic development rather than economic growth.

The next sets of benefits of cashless economy are eliminate counterfeit currencies and increased public spending. Counterfeit currencies circulated in the economy are also barrier for economic development. Thus when the economy becomes cashless these currencies lose their significance and they cannot be introduced in the digital economy. Thus being cashless economy to a certain extent eliminates counterfeit currencies in the economy. Increased public spending is discussed from the point of view of government. Cashless economy mobilizes savings of the people. This mobilized savings increases the government spending for public welfare activities.

Finally as a result of becoming cashless economy, the banks will witness a increase in their volume of business and many people start opening bank accounts which will again lead to exposure of financial transactions to them. All these benefits can help in achieving inclusive growth for the country.

## FINDINGS

The findings of the study are

- From the study it is clear that the major advantages of financial inclusion are increase in demand for financial products, growth in GDP, capital formation and accessibility of banking finance to rural areas. They seem to influence 95.4% which indicated by transformation matrix.
- All the advantages falling under the 95.4% category have correlation of more than 0.75.
- Majority of the benefits of financial inclusion are validated by more than 80% of the respondents. If they are analyzed carefully, all the benefits of financial inclusion in some way contribute to the economic growth of the country.
- The major advantages of becoming cashless economy are exposure to financial services, avoidance of carrying cash, tracking money laundering activities, convenience in handling financial transactions, fall in parallel economy transactions and increased security of funds. These benefits have an influence of 74.7% which is again indicated by transformation matrix.

- Cashless economy brings various benefits to consumers in the form of increased security of funds and helps to avoid carrying cash.
- The benefits sort out by the study regarding cashless economy will have direct impact on the economy. It will move the economy in growth direction and in longer period towards development.

## SUGGESTIONS

This study identifies the various benefits of financial inclusion and being a cashless economy. The Government of India has been taking various steps to improve the growth rate of the economy. On the other hand, people must be given proper awareness about the various digital payments modes and the benefits of being a cashless economy and also about the various benefits of achieving inclusive economic growth. This will lead to increased cooperation from the public for the various schemes, policy changes and other actions taken by the government to achieve better economic growth.

## CONCLUSION

To conclude, financial inclusion and cashless economy are considered to be tools for economic growth. It is true that there are various difficulties in achieving cashless economy and financial inclusion but one day the move has to be taken by the government. There is also a change in the minds of consumers and the country witnessed a increase in the volume of digital transactions and if the steps taken by the government produces the benefits discussed by the study, it is sure that any underdeveloped economy can become developed economy.

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