

## CASH TO CASHLESS ECONOMY: ISSUES AND CHALLENGES

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Dr. Omprakash Gusai\*

### ABSTRACT

*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. However this article discusses and focuses on the term "cashless society" in the sense of a move towards, and implications of, a society where cash is replaced by its digital equivalent. In other words, legal tender (money) exists, is recorded, & is exchanged only in electronic digital form. The justifications given for this move were disrupting proliferation of counterfeit notes, making cash hoarded from undeclared sources of income (black money) worthless, disrupting drug trade or terrorism activities which are mainly funded by black money and encouraging cashless transactions. But it came up with certain cons whose main victims were the general middle class people who were actually not the black money hoarders. This research paper aims at studying the effects of this bold move on the Indian economy and the key strategic decisions taken by the Government of India to make India a cashless economy.*

**KEYWORDS:** *Digital Money, Cashless Society, Post Demonetization, E-Wallet, Net Banking.*

### Introduction

Cashless Economy can be defined as a situation in which the flow of cash within an economy is non-existent and all transactions must be through electronic channels such as direct debit, credit cards, debit cards, electronic clearing, and payment systems such as Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS) in India. The proposal by the government involves the elimination of these existing notes from circulation and a gradual replacement with a new set of notes. There are potentially two ways in which the pre-demonetization money supply will stand altered in the new regime: one, there would be agents in the economy who are holding cash which they cannot explain and hence they cannot deposit in the banking system. This part of the currency will be extinguished since it would not be replaced in any manner. Second, the government might choose to replace only a part of the currency, which was in circulation as cash. In the other words, the rest would be available only as electronic money. This could be a mechanism used to force a transition to cashless medium of exchange.

These two would have different effects on the economy in the short term and in the medium term, as will be explored below. To understand the effects of these dimensions, it is important to first understand what is it that cash does in the economy? There are broadly four kinds of transactions in the economy: accounted transactions, unaccounted transactions, those that belong to the informal sector and illegal transactions. The first two categories relate to whether transactions and the corresponding incomes are reported for tax purposes or not. The third category would consist largely of agents who earn incomes below the exemption threshold and therefore do not have any tax liabilities.

Demonetization will render India on the path of being cashless economy. It will help to boost the digital payment system in India, as people will be lured to adopt e-payment systems, as the cash

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\* Assistant Professor, Motilal Nehru College, University of Delhi, South Campus, Delhi, India.

availability will be lowered. Given the sheer size - the decision to withdraw 85% of the cash in circulation has thrown India into disarray. Such a large and unexpected policy change naturally carries with it a large collateral damage at least in the short run. This is particularly true for India where a large section of the economy is comprised of the informal or unorganized sector (not registered with the government and hence not subject to taxation) which functions on cash but is not illegal.

### Literature Review

**Manpreet Kaur (2017)** opined that demonetization is a generations' memorable experience and is going to be one of the economic events of our time. Its impact felt by every Indian citizen. Demonetization affects the economy through the liquidity side. Demonetizing is Progressive shift to a cashless economy with a greater focus on electronic transactions is being envisaged. Rising use of credit/debit cards, net banking and other online payment mechanisms will be another positive effect of demonetization, as these would not only lower transaction costs but some of these could help earn some fee income as well.

**Ashish Das, and Rakhi Agarwal, (2010)** in their article "Cashless Payment System in India- A Roadmap" Cash as a mode of payment is an expensive proposition for the Government. The country needs to move away from cash-based towards a cashless (electronic) payment system. This will help reduce currency management cost, track transactions, check tax avoidance / fraud etc. enhance financial inclusion and integrate the parallel economy with main stream.

**Alvares, Cliford (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.

**Annamalai, S. and Muthu R. liakkuvan (2008)** in their article "Retail transaction: Future bright for plastic money" projected the growth of debit and credit cards in the retail transactions. They also mentioned the growth factors, which leads to its popularity, important constraints faced by banks and summarized with bright future and scope of plastic money.

**Jain, P.M (2006)** in the article "E-payments and e-banking" opined that e- payments will be able to check black money. 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 e-payments and communication networks.

### Research Methodology

The study is based on secondary sources of data/ information. Different books, journals, newspapers and relevant websites have been consulted in order to make the study an effective one. The study attempts to examine the effect of demonetization on Indian economy as well the strategic decision of Indian economy to become cashless.

### Types of Cashless Modes and Payment

- **Mobile Wallet:** It is basically a virtual wallet available on our mobile phone. We can store cash in your mobile to make online or offline payments. Various service providers offer these wallets via mobile apps, which is to be downloaded on the phone. We can transfer the money into these wallets online using credit/debit card or Net banking.
- **Plastic Money:** It includes credit, debit and prepaid cards. The latter can be issued by banks or non-banks and it can be physical or virtual. These can be bought and recharged online via Net banking and can be used to make online or point-of-sale (PoS) purchases, even given as gift cards. Cards are used for three primary purposes—for withdrawing money from ATMs, making online payments and swiping for purchases or payments at PoS terminals at merchant outlets like shops, restaurants, fuel pumps etc.
- **Net banking:** We can do it through a computer or mobile phone. Log in to your bank account on the internet and transfer money via national electronic funds transfer (NEFT), real-time gross settlement (RTGS) or immediate payment service (IMPS), all of which come at a nominal transaction cost.

The RBI classifies every mode of cashless fund transfer using cards or mobile phones as 'prepaid payment instrument'. They can be issued as smart cards, magnetic stripe cards, Net accounts, Net wallets, mobile accounts, mobile wallets or paper vouchers. They are classified into four types:

- **Open Wallets:** These allow you to buy goods and services, withdraw cash at ATMs or banks and transfer funds. These services can only be jointly launched in association with a bank.

- **Semi-Open Wallets:** You cannot withdraw cash or get it back from these wallets. In this case, a customer has to spend what he loads. For example, Airtel Money/Ola Money is a semi-open wallet, which allows you to transact with merchants having a contract with Airtel/Ola.
- **Closed Wallets:** This is quite popular with e-commerce companies; where in a certain amount of money is locked with the merchant in case of a cancellation or return of the product, or gift cards. Flipkart and Book My Show wallets are an example.
- **Semi-Closed Wallets:** These wallets do not permit cash withdrawals or redemption, but it allows you to buy goods and services from listed vendors and perform financial services at listed locations. Paytm is an example

### Strategic Decision to Become a Cashless Economy

Why Should India Move Towards a Cashless Economy? Was Demonetization the Step to Move Towards the Cashless Economy?

Cash is anonymous. This is a safeguard for the privacy of their users, a privacy that can be a benefit but also a hazard to the society. This anonymity is used both by criminals, but also by illegal immigrants and tax payers. A society where all transactions are recorded will be a society with less crime but also less freedom.

India is moving towards a digital revolution. The transition while drastic has been in cards for a long time now. Post demonetization, there has been a frenzy in the minds of the general public with regards to the whole digitization process. We have witnessed a major chunk of our population embracing this digital change. To encourage the public to come on board the digital transactions bandwagon, the government has come up with a slew of discounts, incentives, and freebies. But there still exist hoards of sceptics who still doubt the digital transactions and payments system. They still seem to be unaware of the numerous benefits that they can enjoy once they decide to go cashless.

### Advantages of Cashless Economy:

- Ñ **Reduced Tax Evasion:** Reduced instances of tax avoidance because it is financial institutions based economy where transaction trails are left. Reducing use of cash would also strangulate the grey economy, prevent money laundering and even increase tax compliance, which will ultimately benefit the customers at large.
- Ñ **Curbs Black Money:** It will curb generation of black money and will reduce real estate prices because of curbs on black money as most of black money is invested in Real estate markets. Usage of cashless mechanisms would also ensure that loopholes in public systems get plugged, and the intended beneficiaries are able to avail the benefits due to them.
- Ñ **Lower Cost of Running Cash Economy:** In Financial year 2015, RBI spent Rs 27 billion on just the activity of currency issuance and management. This could be avoided if we become cashless society. There will be efficiency gains as transaction costs across the economy should also come down. (source: RBI Report)
- Ñ **Reduced Threat of Fake Note, Soiled Currency:** 1 in 7 notes is supposed to be fake, which has a huge negative impact on economy, by going cashless, that can be avoided.
- Ñ **No more bulky wallets:** We can get rid of those bulky wallets. Deposit your cash into the bank and join the millions who are enjoying the ease of digital transactions using credit cards, debit cards, mobile wallets, UPI apps and USSD Banking. Having these also means that you don't need to stand in the long queues of ATMs anymore. Just swipe your plastic money or flash the QR code while making payments for your purchases.
- Ñ **Ease of Transactions:** Once you get hang of the digital payment and transactions system, you are sure to become a fan of online shopping. Digital and cashless transactions have paved way for e-commerce where you can shop for any object right from the comfort of your home.
- Ñ **Easy way to Track Spending:** Cashless transactions executed digitally have this unique feature of leaving a trail. For most times this is done through the indigenous technology of the humble SMS. Also, if you decide to go cashless, then you can easily track your spending through the various statements that you receive from your bank and wallet operators at the end of the month. This way you will exactly know where your money went and kick away the ever growing concern of not knowing the same.

Ñ **No hassles of Odd Change:** Well, as an Indians, a major benefit of going cashless would be to not worry about the odd change. The beauty of cashless transactions is that you can make the exact payment to the last paisa, be it 0.90 Rs. or 0.01 Rs.

Ñ **Less Risky:** Imagine a situation where you are traveling abroad and all of your cash gets stolen. You are stranded in an alien nation with no money. What will you do then? Cash once stolen hardly ever comes back. The money is lost forever. But if you get robbed of your debit or credit cards, you can easily block them remotely and be assured that you will face no loss of money. That is a major plus of going cashless. With the continuous improvements being made to financial digitization technology, soon we will have cards which will be enabled by our biometrics, and then it will become extremely difficult for anyone to rob us of our hard earned income.

Ñ **Cleaner and Greener:** While this reason may not amount much, but going cashless does contribute to a cleaner and greener country. More people joining the cashless revolution would mean reduction in the volume of paper money to be produced. This would definitely help the environment and our surroundings as less paper requirement would mean lesser trees being cut. Going cashless would mean coming in contact with less of such unhygienic currencies. Thus we see it makes one truly healthy, wealthy and wise.

#### **Cashless Economy will eventually have the Following Chain Effect:**

- Improvement in credit access and financial inclusion, which will benefit the growth of SMEs in the medium/long run.
- Reduce tax avoidance and money laundering thanks to the higher traceability of all the transactions.
- The increased use of credit cards will definitely reduce the amount of cash that people will carry and as a consequence, reduce the risk and the cost associated with that.

Though a cashless economy provides with the above benefits, abolishing cash altogether may not result to a more efficient system, but it will possibly increase social exclusion and will constrain further the private sphere. However, the benefits of increased growth cannot be ignored and hence India should move on the path to become cashless.

#### **Disadvantages of Cashless Economy**

Ñ The biggest disadvantage of the cashless economy is that not everybody has the knowledge of doing digital transactions and hence its reach is limited to urban and semi-urban centres only and therefore it is very difficult to implement cashless economy in the big country where many sections of the society in rural areas is illiterate and poor. Hence the lack of proper infrastructure and education among citizens is disadvantageous as far as the cashless economy is concerned.

Ñ Another disadvantage of the cashless economy is that although it easy to do digital transactions but at the same time it is very risky as compared to cash related transactions. Hence people having half knowledge of digital payments are exposed to cyber fraud and losing their hard earned money to online scam and hacking of bank accounts and hence it is better to do cash transactions rather than doing digital transactions if one is not fully aware of the online medium of transactions.

Ñ Another demerit of the cashless economy is that digital mode of payments like the credit card, wallet payments, internet banking involves some transactions fee which is not the case with cash transactions and hence any individual thinking of doing online transactions will take into account these transaction costs and will not favour online medium of transactions. Hence the presence of transaction cost is a hindrance to cashless economy finding acceptance among the people of the country.

#### **Digital Marketing and Ecommerce**

Ñ **Digital Marketing:** Digital marketing has a bright future in India because of various reasons and demonetization. This will bring an era of cashless India where digital media in being used for selling and purchasing. There has been a significant growth in the mobile wallet sector. Transferring money as well as making payments for online orders is easy with mobile wallets. More people have begun to fill up their mobile wallets resulting in the growth of the mobile wallet providers like Paytm, Mobikwik and more. People moving towards Digital India and this is exactly how Digital Marketing can be assumed as a great future in India in coming years.

Ñ **Ecommerce:** Demonetization will change ecommerce and its growth in India for coming years. Ecommerce moving towards fully digitalization and people and marketers will fully involve with

through digital modes, like: cash on delivery changes with card on delivery, physical wallet changes with E-wallet, people will spend more time on online marketing instead going to local market, etc. So it can be assumed that ecommerce will have great future in nearby future.

### Conclusion

The whole demonetization scheme was considered a good initiative but lacked in the implementation part. This impacted the whole of Indian market especially consisting of unorganised sector where majority of dealings takes place in cash. There was huge fall in the demand due to illiquidity and unawareness of digital payments. Organisations benefiting from this scheme were the payment intermediaries like Paytm and e wallet apps as there was no option left for the customers and retailers to make the dealings. It was also a good initiative to make India move towards the cashless economy and curb the problem of unaccounted incomes, counterfeit notes and illegal transactions.

The cashless transaction system is reaching its growth day by day , as soon as the market become globalised and the growth of banking sector more and more the people moves from cash to cashless system. The cashless system is not only requirement but also a need of today society. All the online market basically depends on cashless transaction system. The cashless transition is not only safer than the cash transaction but is less time consuming and not a trouble of carrying and trouble of wear and tear like paper money. It also helps in record of the all the transaction done. So, it is without doubt said that future transaction system is cashless transaction system.

A number of agents in the economy would be required to move from the informal sector to the formal sector. For these agents as well as for agents who have been operating through the medium of cash and find the transition difficult, certain informal cash substitutes might emerge. For instance, even at present, there are coupons like the SODEXO coupons which are used for paying for certain purchases. These are accepted by a range of establishments in place of formal currency. It is, therefore, possible to see an expanded use of these coupons. The change might induce the generation of other tokens as substitutes for money as well-the agency collecting MCD's green tax has started issuing tokens in place of change. Similarly, for high value transactions one can think of bit coins and other such crypto currencies on one side and foreign exchange on the other as a mechanism for settling transactions. Perhaps these would not take on a dimension large enough to challenge the official currency, but it can disturb the expectation that the unaccounted economy would be brought into the formal sector since there might exist alternatives to the formal currency. Here it is important to explore the possibility and acceptability of peer to peer payment instruments—a category which has been evolving in recent times. In spite of the initial hiccups and disruptions in the system, eventually this change will be well assimilated and will prove positive for the economy in the long run.

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