

A STUDY ON IMPACT OF CASHLESS ECONOMY ON BANKING AND FINANCE

Megha Deora*

Abstract

Banking and Finance are important pillars of any economy. Cashless economy may affect it positively as it will increase financial inclusion of the population which itself helps in reducing poverty. Cashless economy reduces the burden as well as cost of handling cash. Tracing of criminal activities like robberies, money laundering etc become easier and many other benefits. At the same time it affects banking and finance adversely as well. With the rising cybercrimes, cashless economy causes risk of identity theft, rising consumer debt etc. This paper is to explain the impacts of cashless economy on banking and finance. To understand this, Banking and Financial conditions of the most cashless economy i.e., Sweden is taken into consideration. But every country is different and its issues are country specific. Therefore, the final impact of cashless economy on banking and finance may differ with different countries.

Keywords: NEFT, RTGS, Digitalization, Subzero Interest Rate, GDP, Tax Evasion.

Introduction

As the paper is all about Impact of Cashless Economy on Banking and Finance, one needs to know the meaning of cashless economy Banking and Finance. Cashless economy: An economy in which cash is not used for performing transactions but other means like NEFT, RTGS, net banking, debit card, credit card etc. are used. A fully cashless economy is an impractical concept. Sweden is the most cashless economy on this planet. In Sweden cash circulation is equivalent to only one percent of its GDP value.

* Assistant Professor, Maharani Girls College, NH-8, Suratpura Road, Kalwara, Jaipur, Rajasthan, India
*avdmegha@gmail.com

Why does government of various Nations promote it?

- **Eradication of tax evasion:** as all transactions will be online therefore all transactions can be traced easily. hence income earned by citizens can very clearly be seen. this enables the government to get proper text on whole and real income earned.
- **Money laundering can be reduced:** money laundering case to camel page the origin of illegally obtained earnings so that they appear to have derived from lawful sources. Three common ways of money laundering are:-
 - Middle man: Embezzled money is given to a middle man who makes deposits of under \$10,000 to a series of accounts. When money is required back middleman withdraws from various accounts and pay to the money launderer.
 - Income through Shell Company: Money launderer sets up a shell company. He deposits his illegal money in the Shell Company's bank account and claims it as revenue the fake company has earned from its fictitious customers. The embezzled money now looks like legitimate business income for the shell company. no money laundry can withdraw or make personal purchases through the shell company.
 - Gambling: The Imperial money can be shown as good luck at the tables. But this is taxable amount and he has to pay taxes on it. But being cashless economy there is no chance of embezzled cash since all transactions cashless and hence the income earned will already be in notice of government. Therefore all these measures cannot be adopted to launder the money.
 - Some other methods of money laundering are: Residential real estate, insurance policies and surfing, fundamental investment schemes.
- **Attack on parallel economy:** money laundering creates a parallel economy which can be attacked if money laundering can be reduced which is possible through cashless economy only.
- **Financial inclusion:** when the economy becomes cashless public has to include themselves in banking system. Financial inclusion automatically reduces poverty. as poverty will reduce consumption will be posted and hence GDP will be high which ensures economic growth.
- Security and convenience
- Tracing criminal activities can become easy and they might can be blocked.

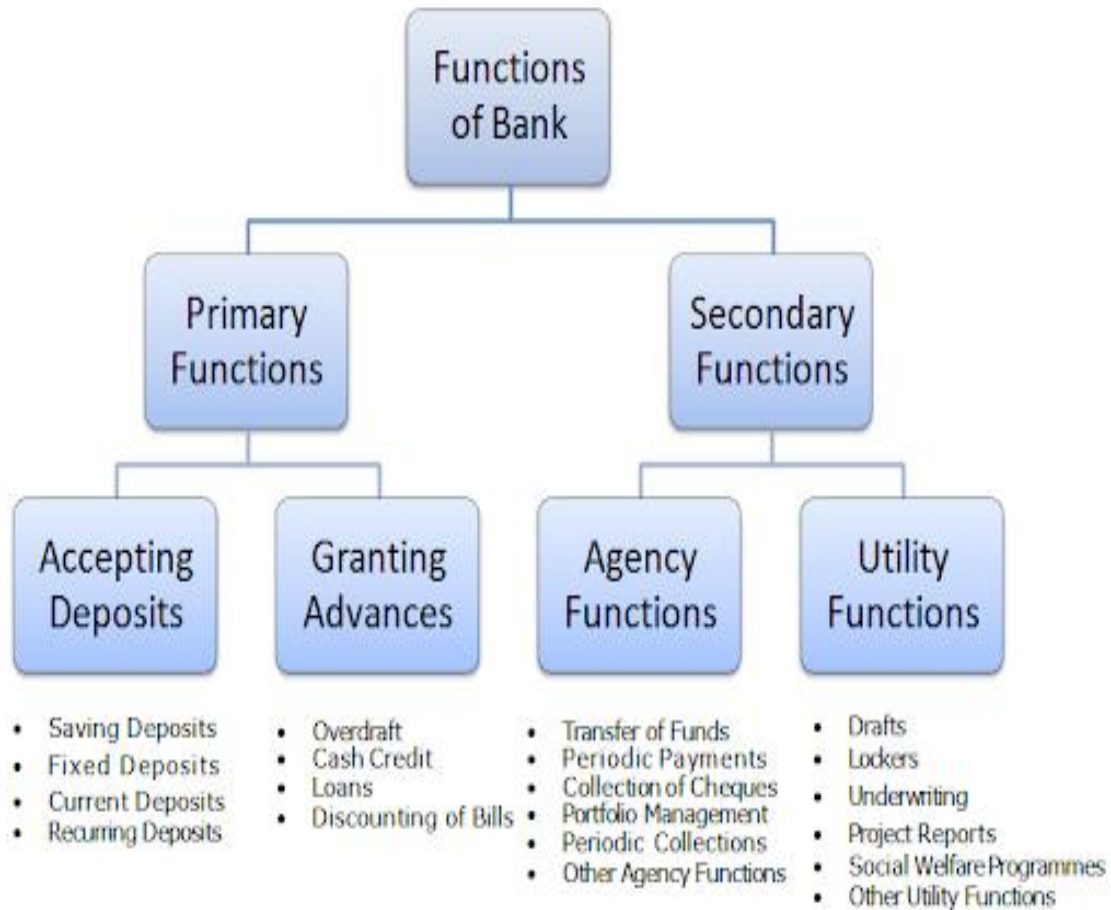
- Banking becomes easier as one of the major works of handling cash is reduced. This helps banks in focusing on other important financial matters like better utilization of fund, keeping interest rates low etc.

Arguments against Cashless Economy

- Risk of identity theft: increasing rate of Cyber-attack fraud and power outage causes lack of interest of citizens towards cashless economy.
- Population becomes dependent on the third party. Citizens have to trust government or third party to keep their wealth.
- Reduced liquidity means bad for certain sectors. Generally small businesses are dependent on higher liquidity. They maintain high liquidity so that in case of emergency they can avoid taking loan from creditors which create another burden of interest on their revenues.
- Really bad for poor: let's take an example of scrap collectors. They are illiterate, unbanked poor. They earn on daily basis but get only a portion of their income. Rest of the income is kept with their fixed buyers so that in case of emergency they can get that from them (buyers). In such case, they are unable to join cashless economy as when they will need money, they will ask for cash from buyers but being a part of cashless economy buyers must not have cash to fulfill their demands.
- Difficult for older people to use smart phones and having cashless society can make them helpless.
- Not friendly for immigrants who are not tech savvy. This may reduce tourism as well.
- Bankruptcy: Another big challenge for cashless society is that children in cashless society may think cash is endless that comes from an account. This may lead to increase in large debt and possibly bankruptcy.

Banking

Banking is the business conducted or services offered by bank. But here banking is referred to as an industry that handles cash credit and other financial transactions.



Finance

Procuring the sources of money supply and allocation of these sources is known as Finance. Finance is a field that is concerned with the allocation of Assets and liabilities over space and time Orphan under conditions of risk and uncertainty.

Objectives

The objectives of the study are:

- To observe the effects of cashless economy on Banking and Finance
- Find out positive impact of cashless economy
- Find out negative impact of cashless economy
- What is the financial and banking condition of most cashless economy on this planet?
- How Sweden does become the most cashless economy?

Hypothesis

- **Null Hypothesis:** There is no significant impact of cashless economy on Banking and Finance
- **Alternative Hypothesis:** There is significant impact of cashless economy on Banking and Finance

The Story of Sweden becoming the Most Cashless Economy

To know the impact of cashless economy on banking and finance, one needs to know what benefits and struggles does the most cashless economy that is Sweden's Banking and Finance faced to be so close to cashless economy. Reasons which made it cashless can be stated as robust card payment system, strong internet infrastructure, a popular mobile payment application, supportive legal framework and a cultural mistrust of cash also a technology infrastructure that is capable of sending messages across the country.

Currently, cash circulation in Sweden is 1% of its GDP value. It is expected that by March, 2023 Sweden will become completely cashless economy. It is found that when cash transactions fall below 7% of the total payment transactions, it becomes more costly to manage cash than the marginal profit on cash sales because of security reasons like the vaults etc. When this happens, an economically rational retail management should stop accepting cash.

This was possible in Sweden as even though cash is a legal tender, contract laws have precedence than the banking and payment laws there. If a store puts up a sign that it does not accept cash still you transact there that means you, as a customer, was entered into a contract with that store. But in other countries, like India, payment laws have higher precedence than contract laws. Here, if something is a legal tender, then according to law a store must accept it.

Therefore, Legal Framework of Sweden has Played a Key Role

Country	Cash Circulation in Economy : GNP
Sweden	1:100
U. S.	7:100
U.K.	3:100
South America	30:100

Other drivers which helped Sweden in reaching to cashless economy are stated below.

- Sweden was aware and updated from very early stage. We can say that by following observations:

Adoption of payments card	1950s
Digitalization of bank accounts	1960s
Setting up of the internet infrastructure and internet banking	1990s
Outsourcing printing and distribution of cash as central bank said that cash is not its core business	Early 2000s

- A lot of robberies used to happen in Sweden, which resulted in unions of various organizations pushing for a cash free society. To transform black money sources (work) to white money sources, the government introduced tax deductions for domestic services like home repairs, babysitting etc. This meant people are not required to keep cash to pay for these services. It led a dramatic drop in cash keeping..
- Introduction of “Swish app”- a mobile payment app, introduced by Swedish banks and central bank of Sweden.
- Now, there were reasons for not keeping cash, neither was it required as most of the payments could be done online. Also a help in payment system i.e., swish app was introduced. Then in 2015 to 2017, Sweden replaced its existing notes to new ones. For this exchange whole currency out there came into accounts but all of it was not taken out as people were friendly with cashless system already.
- 97% of traders were accepting cash but only 18% of buyers were ready to pay in cash. Therefore it is consumer driven as well. Even banks are cash free there. If one wants to deposit or withdraw cash they have to go to the ATMs While retailing and shopping- payment cards are used more Consumers find it more convenient and faster. However, while transferring funds from one person to another- mobile payment apps are used.
- Mobile coverage in Sweden is 100% Swedish people are very fast in adapting new technology as they are maintaining mobiles since a long time. Also they trust in their government and banking system.

Problems Sweden is Facing

No doubt Sweden is enjoying the benefits of cashless economy but facing too many problems too. Interest rate in Sweden is subzero which is quite low and indicated economic growth there. But such low interest rates are increasing consumer debt. There is very minimal cash circulation in the economy; this is making the whole

economy dependent on rest of the world. It is difficult to decide who should be responsible for teaching the vulnerable population i.e., the older population, the less tech savvy immigrants etc.

Banking and financial condition of Sweden

- Interest rate : -0.5%
Sweden maintain subzero interest rate. Low interest rate promotes loans which gives rise in GNP. a higher GNP always indicate greater economic development.
Despite of low interest rates, due to their social characteristics, Swedish people keep their money in banks. Therefore money supply does not get affected of low interest rate and Inflation Rate also stays near target i.e., 2%.
- M0 : euro 57762
Mo indicates the cash in hand which is very low as per the size of economy. This keeps declining.
- M3: keep increasing due to low interest rate.
- Deposit Interest Rate : -1.25%
Reason behind negative deposit rate indicates that banks there charges maintenance cost of funds.
- Lending Rate : 0.25%
This is the least lending rate ever in Sweden. This shows that economy is continuously growing after being cashless
- Private Debt to GDP : 271%
This ratio is quite high and shows the rising consumer debts which in long term may lead to bankruptcy. It is the adverse result of being cashless.

Financial Inclusion of Sweden

Financial inclusion of Sweden in 2018 is compared with itself in 2011 and with taking OECD as Standard:

Sweden			
High Income: OECD		High income	
Population, age 15+ (millions)	8.0	GNI per capita (\$)	61,710
	Country data	High Income: OECD	
Account (% age 15+)			
All adults	99.7	94.0	
Women	99.8	93.8	
Adults belonging to the poorest 40%	99.3	90.6	
Young adults (% ages 15–24)	98.6	84.1	
Adults living in rural areas	99.7	93.8	
Financial Institution Account (% age 15+)			
All adults	99.7	94.0	
All adults, 2011	99.0	90.0	
Mobile Account (% age 15+)			
All adults	..	..
Access to Financial Institution Account (% age 15+)			
Has debit card	97.6	79.7	
Has debit card, 2011	95.5	61.9	
ATM is the main mode of withdrawal (% with an account)	..	..
ATM is the main mode of withdrawal (% with an account), 2011	75.8	68.5	
Use of Account in the Past Year (% age 15+)			
Used an account to receive wages	66.5	44.3	
Used an account to receive government transfers	33.5	17.2	
Used a financial institution account to pay utility bills	68.3	61.1	
Other Digital Payments in the Past Year (% age 15+)			
Used a debit card to make payments	92.7	65.3	
Used a credit card to make payments	35.7	46.7	
Used the Internet to pay bills or make purchases	74.6	54.1	
Domestic Remittances in the Past Year (% age 15+)			
Sent remittances	..	..
Sent remittances via a financial institution (% senders)	..	..
Sent remittances via a mobile phone (% senders)	..	..
Sent remittances via a money transfer operator (% senders)	..	..
Received remittances	..	..
Received remittances via a financial institution (% recipients)	..	..
Received remittances via a mobile phone (% recipients)	..	..
Received remittances via a money transfer operator (% recipients)	..	..
Savings in the Past Year (% age 15+)			
Saved at a financial institution	75.1	51.6	
Saved at a financial institution, 2011	63.6	45.3	
Saved using a savings club or person outside the family	..	..
Saved any money	84.5	70.8	
Saved for old age	50.9	39.7	
Saved for a farm or business	5.8	9.0	
Saved for education or school fees	13.7	25.0	
Credit in the Past Year (% age 15+)			
Borrowed from a financial institution	27.7	18.4	
Borrowed from a financial institution, 2011	23.4	14.2	
Borrowed from family or friends	17.2	14.9	

Conclusion

To understand the impact of cashless economy on Banking and Finance, the most cashless economy i.e., Sweden and its banking and financial conditions are taken in consideration. Interest rate in Sweden is -0.5% and Inflation Rate still remain nearby target i.e., 2%. This indicates good impacts of cashless economy, whereas Private Debt to GDP is found to be 271 which indicate disadvantages of it. Every country is different and the issues are very country specific. Therefore, only all aspects are explained. Whether cashlessness is good or bad will differ from economy to economy.

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