

CASH TO CASHLESS ECONOMY: CHALLENGES AND OPPORTUNITIES

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ABSTRACT

Cashless economy is the economy in which transactions are made by debit cards, credit cards, cheques or direct relocate from one account to another. Cashless economy is an economic system in which there is little or very low cash flow in a humanity and goods and services are bought and rewarded through electronic media. However this article discusses and focuses on the term cashless society in the sense of a move towards, and implication of, a society where cash is replaced by its digital the same. In other words, legal tender (money) exists, is recorded, & is exchanged only in electronic digital form. Indian governments also tending to transform Indian banking system from traditional branch based practices to technology driven cashless banking. And for this it provides enough opportunities as such increasing mobile & internet penetration, raising disposable income, ensuring various standard of living, urbanization, latest economic and increasing foreign investment and taxation reforms etc. to accelerate digital transactions but we have to encounter number of challenges also like poor internet connectivity in rural areas, digital literacy, cyber security issues, highly fragmented unorganized economy, etc. 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 Economy, E-Wallet, Net Banking, Electronic Payments.*

Introduction

Digital transactions bring it better transparency, scalability and accountability. With limited cash in hand and an indefinite crunch, most people are rushing to cashless transaction. But coffee planters have certain problem in cashless transaction. Cashless economy is an economic system in which transactions are not done mostly in exchange for actual cash. It does not refer to an outright absence of cash transactions in the economic setting but one in which the amount of cash-based transactions are kept to the barest minimum. In other words, it refers to the widespread application of computer technology in the financial system. It is the economy that run mostly on plastic or digital money and thus with minimum cash or money in paper form is designed to breakdown the traditional barriers hindering financial inclusion of millions of Indians and bring low cost, secure and convenient financial services to urban, semi-urban and rural areas across the country. Nevertheless, cashless economy is defined as one in which there are assumed to be no transactions frictions that can be reduced through the use of money balances, and that accordingly provide a reason for holding such balances even when they earn rate of return. It is not the complete absence of cash but it is a payment system that is secure, convenient, and reasonable.

Review of Literature

Preeti Garg, Maanvi Panchal (2017) "study on introduction of cashless economy in India 2016: benefits and challenges" journal of business and management, vol-19, issue-4, issn-2278-487x.

Daniel. D (2016) "a move toward a cashless society: a closer look at payment instruments economics." Review of network economics,pg.175-198.

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P Manivannan (2013) in his research paper "Plastic Money a way for cash Less Payment System" examined that Plastic Money i.e. usage of Credit card was measured a luxury, and has become needed.

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.

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.

Objectives of Study

The paper is an attempt to evaluate the current progress of cashless economics system and comment on the issues and challenges in the way of digitalization of Indian economy.

Research Methodology

This is a descriptive research and based on secondary data. The study is basically conceptual in nature and for the purpose of the study; an extensive review of literature has been studied and identified the critical challenges facing in India. Different books, journals, newspapers and related websites have been consulted in order to make the study an useful one. The study attempts to examine the outcome of demonetization on Indian economy as well the strategic decision of Indian economy to become cashless.

- **Net Banking:** It does not involve any wallet and is simply a method of online transfer of funds from one bank account to another bank account, credit card, or a third party. It can be used through a computer or mobile phone. A person has to log in to her/his bank account on the internet and transfer money via national electronic funds transfer (NEFT), immediate payment service (IMPS), or real-time gross settlement (RTGS) all of which come at a nominal transaction cost.
- **Mobile Wallet:** A mobile wallet is a way to carry credit card or debit card information in a digital form on mobile device. It is basically a virtual wallet available on mobile phone. A user can pay with his/her Smartphone, tablet, or smart watch instead of using your physical plastic card to make purchases. A user needs to make an account with a mobile wallet source. After which money is added to the mobile wallet account using a credit, debit, online transaction from bank account or via cash. An individual can store cash in his/her mobile to make offline or online payments. Various service providers offer these wallets via mobile apps, which is to be downloaded on the phone. She/he can transfer the money into these wallets online by using credit/debit card or net banking. This means that there is no need to furnish the card details every time while paying a bill or make a purchase online via the wallet. It can be used to pay bills and make online purchases.
- **Plastic Money:** It includes credit, prepaid and debit 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 shop, restaurants, fuel pumps etc. 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 services can only be jointly launched in association with a bank. These allow you to buy goods and services, withdraw cash at ATMs or banks and transfer funds.
- **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.

- **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. amazon 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.

Opportunities and Advantages of Cashless Economy

There are many Opportunities and Advantages of Cashless system in Indian economy. They are as follows:

- **Reduced Maintenance Costs:** Digital transaction is a boon in terms of processing costs and waiting time. If implemented properly, it will increase the consumption and production rates, thereby improving the economy. Moreover, the logistics and supply chain of cash is costing the exchequer a fortune. The amount of money required in printing cash, its transportation, storage, distribution and detecting counterfeit currency is huge.
- **Decreased Crimes:** The risk of theft will continue until people carry cash and by going cashless the same can be reduced. The government, however, has to take measures to curb the online scam and identity theft incidents.
- **Cost effective to Banks:** Normally, if bank transactions are done manually, it costs nearly Rs. 40 to 45 and the same is done through internet it costs 7 to 8. Simultaneously, if same transactions is done through either U Mobile or ATM it hardly costs Rs. 12 to 14 and Rs. 3 to 4 respectively. Production of coins and paper currency is indeed an expensive endeavor.
- **Safe and Secure:** Both it is safer for bank and customer as well; it keeps high degree of secrecy. If stolen, it is easy to block a credit card or mobile wallet remotely.
- **Improved Economic Growth:** Shopping online gets easy as one can use a number of payment options; from credit and debit cards to net banking. In addition to this, going cashless also has health benefits. With physical currency, the chance of spreading of germs is more.
- **Control of Black Money and check for Anti money laundry:** Even transactions can be done through e banking but same can be traced while it is very difficult to trace the transactions in cash. There are certain check also in depositing and withdrawing money through bank accounts. Hence, it will definitely control over black money and money laundering in the days to come.
- **Higher Revenue:** A derivative advantage of transparent transactions is collection of tax will increase. Thus generating higher revenue for the government, which in turn will be converted into public welfare policies and schemes?
- **Saves Money and Time:** Presently banking is required good number of staff to attend and Redress the complaints at different stages. They can reduce costs as they no longer need the Manual accounting work to be done.
- **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.
- **Transparency and Accountability:** Electronic transactions or plastic money always leaves a digital proof beneficial for both the taxpayer (consumer) and the tax collector (government) and hence makes the system much more transparent and compliant.
- **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.
- **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.

- **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)
- **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.

Challenges of Cashless Economy

There are many challenges facing the introduction of cashless system of payment in Indian Economy. They are as follows:

- **Few Banks in Villages:** The capital city New Delhi alone has about 20 HDFC bank branches. There are several villages and Tehsils that don't even have one. More the banks, more the cash deposits in accounts. Banks in villages should be helpful in teaching the residents the process, usage and benefits of plastic cards.
- **Low Literacy Rate:** Low literacy rate hinders the accessibility of banking services. Citizens should not only know how to read and write but also possess basic ICT literacy to fully enjoy the benefits of e-payments.
- **Language Barrier:** Internet is an English based platform. The details on the plastic card are also in English. The message received on mobile regarding transaction is also in English. Therefore, it is required to use multiple languages regarding these processes or make everyone learn English.
- **Digital Literacy:** More than half of the nation still does not know how to use a computer. People in rural areas still don't know about smart phone. Besides, there is lack of internet facilities and without it a country cannot become cashless. There are still many rural and urban areas where there the access of having 2G network is very difficult. Moreover, the cost of Internet access is very high as compared to developed countries.
- **Fraud:** Credit cards can be stolen. A thief may use them directly or to get their information.
- **Internet Blockage:** Where the internet is the first thing that is blocked. In such circumstances, neither is it possible to use cards for transactions nor it is possible to use e-wallets
- **Are Banks Ready:** A cashless society needs a proper infrastructure? The banks need to be fully equipped to handle the surge in e-transactions. Infrastructure is also needed in terms of opening more accounts in the banks.
- **Encourage People to Spend:** spending by cards often encourages people to spend more. Giving cash by hand helps people keep a check on their expenses but paying buy cards give people a free hand. Not just through credit but even the debit cards give that impression that you can make that payment immediately.
- **Smart Phone Affordability:** Several companies have come up with new and in expensive phones, but they still not affordable for most of the population in the country. More affordable option should be launched by the government for people to buy smart phones for cashless transaction.
- **Infrastructure/ Phone Battery:** India still lacks when it comes to supporting a mobile security. It is extremely difficult to find a public charging point if the phone battery discharges. Even metro stations or railway stations in the tier one cities do not provide that infrastructure.
- **Network Connectivity:** Since the day demonetization was announced ,people are trying to use more of card transaction to save that dreaded trip to the bank and to save the last penny of the hard cash in hand. However a sudden surge in card transaction has led to connectivity issues.
- **Internet Cost:** The internet cost in India is still substantially high. There is no Wi-Fi at public places and if people do not get their monthly data packs recharged .There is no way they can be collected to make online payments. Internet connectivity is needed even for the **e-wallets**. In orders to convince people to do cashless transactions, the cost of the internet should be lowered and free Wi-Fi should also be provided at public places.
- **Charges on Cards Online Transactions:** Heard of convenience charges? of course. You would have if any do online transactions.

Conclusion

The need to move towards a cashless economy in India is immense. One, it will save a huge amount of money that is spent annually in printing and maintaining currency. Currently less than 1% of all consumption expenditure is incurred through cashless instruments. The arrival of malls, multiplexes, online shopping stores and shopping complexes encourage the customers to make use of plastic cards. The government needs to take the necessary steps and make some policy considerations when they are preparing for a cashless economy. The payment systems have to be protected from the cyber-attacks. Going cashless provides a lot more benefits than just convenience to people, businesses and the government in particular. Increasing use of electronic payments boosts consumption and GDP. This move by the Government along with the implementation of the GST will eventually make the system more accountable and efficient.

Last three years bring drastic transformation in Indian economy from its traditional practices. Significant revolutionary moves have been taken in the form of digital India e.g. Startup India Stand up India, refinement in tax laws with implementation of goods and service tax, promotion of foreign investment, financial inclusion, demonetization etc. All these measures bring drastic transformation in Indian economy by promoting information and technology in each and every sector. Raising disposable income, changing life style & education level, increasing corporatization and demographic dividend are the factors which are significantly contributing in digital transactions in India.

Suggestions

A summary of suggestions on the improvements of cashless economy, we had studied are as follows:

- The use of cards in the ATM should be described to the people so that they can easily use the card. People should be educated effectively.
- Proper infrastructure should be developed in the remote areas so that this facility should be taken to the rural and remote India.
- Buyers and sellers both should be made aware about the benefits of the cashless transactions.
- There is a need for the regulatory authorities to ensure that the policy was properly enforced.
- Tax rebates for consumers and for merchants who adopt electronic payments.
- Abolishment of government fees on credit card transactions; reduction of interchange fee on card transactions.

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