

Cashless Economy: Modes, Opportunities and Challenges

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Abstract

The RBI and government are making several efforts to reduce the use of cash in the economy by promoting the digital payment devices including prepaid instruments and cards. In cashless economy transactions take place through digital mode. It has provided a way through economic exchange take place without visiting banks or any physical place. Today Demonetization is leading the society to cashless one. This research paper discusses the efforts of Government of India in promoting cashless transactions. All over India steps are being taken to make this dream comes true and the benefits that it will provide in long run are worth making these hard effects. All these benefits have been discussed and the hurdles in path to the success of this programme have also been highlighted. With limited cash in economy and indefinite crush in sight, most people are rushing for cashless transactions. Digital transactions bring in better transparency, scalability, and accountability. The new move will be to compel more merchants to accept digital money. This paper makes a review on what the cashless policy will lend us to and discusses the effects of cashless policy on the Indian society, how it started, positive and negative effects of cashless policy, benefits of economy and challenges in its implementation. The objective of the study is to examine its modes, significant benefits and challenges.

Keywords: Cashless economy, cashless challenges, economic growth, e-payment

Introduction

On the eve of 8 November, 2016 prime minister of India announce the end of use of 500 and 1000 Rs. currency notes. This is the very big push for Indian to go towards cashless economy and use cashless ways to survive without cash in near future until some measures are done to control the demonization. What is a cashless economy: cashless economy system is an economy where all the transactions are done through digital form such as debit card, credit card, and ATM cards, E-banking, Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS). In cashless economy role of physical form of money is of no use. In a cashless economy the third party will be in possession of your money. He will allow you to transact that money whenever it is needed. If it is not needed then the third party can use that money. Third party can be a government or any other public or private sector bank.

Various schemes are launched by the government to reduce the dependence of cash such as -Lucky GrahakYojna, Digi DhanVyapaarYojna for customers and traders like to promote mobile banking and e-payment. E-payment makes cashless transactions easier. Government encourages cashless transactions like mobile banking, Ru-pay cards, UPI, USSD these are means and methods of digital payments. A less cash economy is very beneficial for a country and makes it is easy for everyone. A large part of black money is generated in illegal trades like selling drugs therefore without cash or less cash illegal trade might become difficult.

We are the fourth-largest user of cash in the world. The rate of cash to GDP is the highest, i.e. 12.42% in India while this ratio reduces to 9.47% in china and 4% in Brazil respectively. Cash in circulation to private

consumption ratio in India is 20% and Card transactions account for 4% of the personal consumption expenditure. When we calculate cashless paper based transaction (cheque) for financial year 2015, it was 85 lakh crores while online transaction was 92 lakh crores. FY 2015 cashless transaction was 177 lakh crores. It was almost 10 times of total currency notes available in India. In a study it is founded that a 1% increase in card transaction volume would increase consumption each year by 0.039% and GDP growth by 0.024%. Similar benefits are expected for India as well. Going cashless may lead to higher tax collection as well.

Significance of the study

This paper discusses about the current scenario of Cashless India after demonization. It also strives to describe the focuses on the modes of cashless transactions as well as impact of devaluation on our economy, counterfeit currency and challenges towards cashless economy.

Review of Literature

Review of literature paves way for a clear understanding of the areas of research already undertaken and throws a light on the potential areas which are yet to be covered. Keeping this view in mind, an attempt has been made to make a brief survey of the work undertaken on the field of Cashless economy. The reviews of some of the important studies are presented below. Cashless economy is not the complete absence of cash, it is an economic setting in which goods and services are bought and paid for through electronic media.

- According to Woodford (2003), 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. In a cashless economy, how much cash in your wallet is practically irrelevant.
- Srinivas, N. (2006) in his study – "An analysis of the defaults in credit card payments", has tried to analyse the socio-economic profile of the defaulters of credit cards, to identify the set of factors which contributed to such defaults and suggest relevant measures to minimize the default cases. Analysis of reasons indicated that economic hardship is the major reason identified by majority of the sample units follows by rigid payment structure and loss of job/business. The main suggestion is that the banks concerned should redesign the payment structure of credit card defaulters in a flexible and affordable instalment.
- Marco and Bandiera (2004) argue that increased usage of cashless banking instruments strengthens monetary policy effectiveness and that the current level of e-money usage does not pose a threat to the stability of the financial system. However, it does conclude that central banks can lose control over monetary policy if the government does not run a responsible fiscal policy.

Research Methodology

The prepared paper is a descriptive study in nature. The study has been carried out based on the collection of the relevant secondary data. Secondary data collection was based on various sources such as published books, articles published in different journals & newspapers, periodicals, conference paper, working paper and websites, etc.

Objectives

The objectives of study were based on:

1. To understand the advantages of Cashless India.

2. To understand the disadvantages of Cashless India.
3. To study different ways of cashless payments.

Modes of cashless transactions

A payment is not only done by cash. There are many other ways to make payment. A cashless method is more transparent as every transaction can be traced easily as it leaves its footprints. There are many methods of the cashless transaction, which are very easy. Many people have adopted new cashless payment options. To promote cashless economy, many cashless transaction providers have started giving out 100% cash back on cashless transactions. Some methods of cashless transactions are as follows:

Cheque:

Using of cheque is old as bank system. Everyone knows about it. In this method a person who has bank account can write a cheque to other person giving permission to holder of cheque to withdraw money from his account. Using of cheque is very easy and safe method. Cheque is issue through bank so it is safe and can easily track. In business cheques are use at wide range. There can also be some hurdles with issue of cheque such as wrong signature; less amount in account etc. and cheque also take time in clearance.

Demand Draft (DD):

Demand draft is also a very effective method of cashless transaction. This is the safest method for receiving payment because DD is signed by a banker and it never gets defaulted. DD is also takes time in clearance.

Net-Banking:

Bank also provides the service of net banking, i.e. banking from anywhere through internet. Net-banking is more effective than cheque and DD because it does not take time in transaction. Net-banking is easy and safe to use because every user has unique ID and password and he get messages every time he do a transactions for conformation. Through net-banking any work related to bank can be done such as checking of balance, transferring of money to third party, payment to any one on the spot, payments to bills, credit card transactions, etc. with net-banking one can also purchase mutual funds, shares, payment of insurance etc. Net-banking comes with a range of transaction options such as IMPS, NEFT, and RTGS.

Credit Card and Debit Card:

Credit card and Debit card give a person to pay money without cash on the spot. For payment the payer have be holder of card and for receiver, he need a machine to the swap to receive payment. In India credit card and debit card are very famous for use of payment. In credit card there is a limit of credit for a period and the holder of card have to pay that amount. In debit card holder can withdraw money from any ATM without standing in queue and can make payment online. After any payment amount is deducted directly from account. These cards provide instant cash without holding cash. Every person who has bank account can use these cards.

Gift Cards:

Gifts card as name suggested are use of gift. In this the holder of card receive a limit amount, issue by a bank. This card can be used any place where debit or credit card is accepted. These cards always have time limit for use. These card also use in online shopping or online payment.

E- Wallets:

There are many apps that work as wallet. Only need for these wallets are internet connection and a mobile phone. User has to download any app such as Paytm, PayUmoney, Oxigen, Lime, MobiKwik etc. and

transfer some money in it through bank account. After transfer of money user does not need of his account. User can directly do many transactions such as payment to third party or payment for online purchase and can also use for on the spot payment, etc. It is very safe mode of payment because they are highly encrypted.

Aadhaar Enabled Payment System (AEPS):

AEPS is one of the best methods of payment. Aadhaar is mandatory to everyone and it is also mandatory to link Aadhaar card with bank account. A holder of Aadhaar card can use it as a debit card to withdraw money from linked bank account. It is safest method to withdraw money as it use fingerprint scanner. The only hurdle is that it has a limit of withdrawal. AEPS makes withdraw easy and excisable to everyone. Money can be withdrawal from any authorised merchant. Holder can use AEPS in order to perform transaction like Aadhaar to Aadhaar fund transfer, Cash withdrawal, Cash deposit etc.

UPI (Unified Payment Interface):

UPI is a payment method to transfer funds between two bank accounts through mobile phone. This is developed by National Payments Corporation of India and it is regulated by the Reserve Bank of India. In this method user does not required to keep money in specific wallet and sharing his bank account details, money directly transfer from one bank account to another. The various modes like virtual address (a single identifier code), account no with IFSC code, mobile number or Aadhaar number are use in this method. UPI works 24×7 on real-time fund transfer system.

E-Coupon:

As name suggested E-Coupon is issued by online merchant. E-Coupon gives a fix amount discount to the holder during online shopping. In E-coupon user does not require any printing or clipping. A unique code is given to the user. The code is different for every user. User only needs to enter this code he gets discount automatically.

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.

Opportunities

After the demonetisation, use of cashless transactions has increased tenfold. This will give many opportunities in digital world. To incentivise the move towards a cashless economy, the government has come up with a rash of discounts and freebies on digital transactions. Following are some opportunities or advantages in opting cashless economy:

- Opting of cashless transactions will save cost and time in accounting of cash transactions.
- Cost of producing coins and paper notes will not incurred and country can use extra amount for other causes.
- Cashless transactions are done through any way require a unique ID.
- Government can keep track of all transactions by any person.

- The GDP will improve.
- Black money will come under control.
- Costs incurred by RBI in printing, inspecting, storing and guarding 'paper' money will be saved. Costs also include the security and labour involved in processing and transporting cash, regulating the amount of cash in circulation.
- The cashless transaction will motivate people to consume more, spend more, which ultimately increases production and introduces new employment opportunities.
- Small scale businesses will get more opportunities to bloom.
- Prices of real estates will decrease because most of black money is invested in it.
- There will be efficiency gains as transaction costs across the economy should come down.
- Less time is spent in standing in line of ATM to withdraw cash and banks have to spend less on maintenance of ATMs.
- Eliminating cash could also mark an end to bribery and other such corrupt motives as authorities would be able to track virtually all transactions.
- It is difficult to avoid the proper payment of due taxes in a cashless society, such violations are likely to be greatly reduced.
- This also prohibits other criminal activities such as drug dealing, unregistered activities like betting.
- Fake currency notes in the economy will be ceased.
- Digital transactions bring in better transparency, scalability and accountability.
- The written record will help in keeping tabs on spending and this will result in better budgeting.
- Many online shopping sites provide discounts if users use cashless mode.
- With physical currency, the chance of spreading germs is more. Reducing the amount of use of paper currency will reduce germ transmission.

Challenges

With opportunities there are many challenges also. Some are as follows:

- In India there are still many people who do not have knowledge about digitalisation.
- Internet is a very essential part of cashless transactions. Many methods require internet. But in some areas internet connection is not as effective as in other places.
- In a cashless person does not have control over spending.
- Cashless transactions cannot be done without a bank account. In India, a large population still doesn't have a bank account.
- Cashless transaction method is not fully secured as there are hackers and cyber criminals. This requires a very high and unreachable degree of security.
- The society needs some sort of digital awareness to understand the working of society with no cash.
- New schemes to promote cashless are not advertised wisely.
- India has a high cash penetration in almost all of its transactions that happen as B2C transactions.

Total cash flow in the market accounts for 12.04% of the GDP, which is among the highest in developing countries. This goes to show our dependence on cash is acute and it requires time to tackle it.

- Small traders still use physical cash as main for transactions.
- Without smartphones the use of digital is not successful. And large population still not use smartphones or any type of phones.
- Most card and cash users fear that they will be charged more if they use cards. Further, non-users of credit cards are not aware of the benefits of credit cards.
- High propensity to save in and use cash.
- High cost of acceptance infrastructure.
- Regulatory limitations.

Ways to accelerate the growth of digital payments

- Allow and promote foreign companies to participate.
- New regulations on mandatory digital payment should be introduced.
- Increase financial participation.
- Promote cyber and digital education.
- Encourage public to accept new changes benefit to society.
- Central and state government should come together to promote digitalisation.
- Expand acceptance: A country's approach to expanding acceptance will depend upon its readiness for electronic payment, Acceptance penetration, Consumer adoption.
- Fiscal incentives.
- Designing programmes tailored to meet the needs of various types of underserved segments such as women and farmers.
- Strengthening efforts to promote financial participation.
- Crafting approach to inculcate financial literacy programmes at the school level and in higher education.
- Introducing certification standards and constructing innovative models for business correspondents.
- Tax rebates for consumers and for merchants who adopt electronic payments.
- Open bank accounts and make sure they are properly operated.
- Making sure the measure for controlling cyber security is taken seriously and the infrastructure of electronic payment is completely safe.
- Bank should reduce fees on credit card transactions; reduce interchange fees on card transactions; but increase the charges on ATM withdrawals.
- The regulators also need to keep a sharp eye on any potential restrictive practices that banks may indulge in to maintain their current dominance over the lucrative payments business.

Though it will take time for moving towards a complete cashless economy, efforts should be made to convert urban areas as cashless areas. As 70% of India's GDP comes from urban areas if government can

convert that into cashless it will be a huge gain. Therefore different trajectories need to be planned for migration to cashless for those having bank account and for those not having.

Steps taken by RBI and government to discourage use of cash

- Licensing of Payment banks.
- Government is also promoting mobile wallets. Mobile wallet allows users to instantly send money, pay bills, and recharge mobiles, book movie tickets, and send physical and e-gifts both online and offline. Recently, the RBI had issued certain guidelines that allow the users to increase their limit to Rs 1,00,000 based on a certain KYC verification.
- Promotion of e-commerce by liberalizing the FDI norms for this sector.
- Government has also launched UPI which will make Electronic transaction much simpler and faster.
- Government has also withdrawn surcharge, service charge on cards and digital payments.

The government will have to create conditions—not necessarily by creating cash shortages—to push cashless transactions to a threshold level after which the network effect will take over. India may not become a cashless economy in the foreseeable future, but it needs to reduce its unusually high dependence on cash to bring in much needed transparency and efficiency in the system.

Future Prospects of Cashless Payments in India

The future of the Cashless India looks pretty promising as the response of the country people towards this move of the government and the support towards it is a clear indication that the government's move is likely to succeed. The transparency in the economy will increase through the e-commerce transactions and the digital payment gateways which will increase the GDP of the economy. This will increase the creditability of the country and make a rise in investments. This step of cashless is truly going to create ripples of big success. For the industrialists, it is a great time to integrate the cashless practices will be benefitting in the near future.

According to Worldline India Card Payment Report 2014-15, the credit card base grew at 9.8 per cent in the past year. Worldline India is a leader in the payment and transactions services in the country. Alternative methods like mobile wallets and prepaid cash cards accounted for 3 per cent of digital transactions. This industry has been growing steadily over the past few years. Card transactions, both by debit and credit cards, are on an upward trajectory. There are interesting dynamics at play in the Indian payments industry. Indian consumption is still dominated by cash, with cards contributing only 5 per cent of the personal consumption expenditure. In developed countries, 30-50 per cent of spends happen through cards. So there is huge growth opportunity. The rapid growth of smartphones, Internet penetration and e-commerce is complementing these; card payment volumes have been growing in excess of 25 per cent y-o-y. We expect this trend to continue, aided by the continued increase in debit card activation and usage; debit card transactions have been growing at 31 per cent each year. Intense competition and strategic collaboration among existing and new market participants like the payments and small banks and wallets will help scale up acceptance and foster more creativity, innovation and consumer choice. According to him, the future holds exciting times for the payments industry in India, as all stakeholders and regulatory authorities come together to achieve a “less-cash dependent” and eventually “cashless” society. The credit card industry in India sees greater acceptance among consumers this year.

Conclusion

Digitalisation is demand of new world. A world where the money is not in the form of paper, just one click on a button is all you need. Indian economy is rapidly growing and one cannot wait for physical cash to all transactions. One needs a way to speed up these transactions. The cashless is the need for this hour. The acceptance towards cashless economy cannot be forced by less availability of cash but it can be done through much more effective strategies. In his 'Mann Ki Baat' programme PM Modi appealed peoples to use e-wallets, debit or credit cards, internet banking and other modes. Adoption of the Aadhaar card has created a back bone for inter- operable cashless financial transactions. As a conclusion, it can be said that going cashless is make it easier to people, government and businesses. The response and support towards cashless is the indicator of government success.

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