

Cash to Cashless Economy: Challenges & Opportunities

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Abstract

Cashless economy is an economy where maximum transactions are done without using the physical cash but through digital means like credit cards, debit cards, e-wallets and electronic fund transfer (ECS, NEFT, RTGS, USSD, UPI, Aadhar based payment system etc.). India uses too much cash for transactions. The ratio of cash to gross domestic product is one of the highest in the world. In Financial year 2015, RBI spent Rs. 27 billion on just the activity of currency issuance and management. India faces many challenges in setting up a cashless economy like lack of digital and banking infrastructure, cyber security and financial literacy, high cash dependency etc. Finance Minister, in 2016 budget speech, talked about the idea of making India a cashless society. The major benefits of cashless economy in India are reduced tax avoidance and money laundering, reduced costs of printing money etc. Secondary data has been used for study, which is collected from different newspapers, websites, journals etc. In Dec. 2016 total value transaction done using E-wallet was 97.70 (Rs. in Billion) and in Jan. 2017 it is increased up to 108.69. Indian digital payments industry is expected to reach \$700 billion by 2022 in terms of value of transactions. Cashless economy is an economic system in which transactions are not done predominantly 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. A cashless economy or an e-payment system is a situation where there is little or very low cash flow in a given society, meaning thereby, transactions will be made by electronic channels like debit cards, electronic funds transfer, mobile payments, multi-functional ATMs, and internet banking. It is the economy that run mostly on plastic or digital money and thus with minimal cash or money in paper form.

KEYWORDS: Cashless economy, Demonetization, Digital Wallet, Electronic Payments, Point of Sales

Cash to Cashless Economy: Challenges & Opportunities

Cashless economy is a new buzzword aimed by many economies around the world. It is one of the trending and emerging concepts, which is regarded by eminent economists as the best form of modern economy. CASHLESS economy is an economy, which performs all its transactions using plastic money or through the digital means. The recent step of demonetization of government aimed at fourfold attack on counterfeit currency, currency used for terrorist financing, accumulated black money and corruption. In addition, RBI recently unveiled its document on “Payments and settlement systems in India: vision 2018” aimed at making India a cashless economy. Not only this, our eminent prime minister is working tremendously towards his move of digitization (Digital India). Thus, both of these moves demonetization and digitization if worked upon effectively can act as a catalyst in making India a cashless economy. The objective of this seminar is to study the facets of cashless economy and analyzing it in Indian context, the strengths for India becoming cashless, weaknesses that can be faced in implementation, opportunities it can grab by becoming cashless and the threats it can face. The reasons which can be attributed for focusing on India’s shift to cashless economy are decrease in tax evasion and avoidance, saving in time, decreased risk, less cost for maintaining currency notes, curbing black money, tackling counterfeit currency and improved hygiene standards. Many challenges in this transition can be identified as handling currency denominated economy, limited availability of point of sale terminals, weak mobile internet penetration in rural India, capital e-illiteracy and sluggish economy. The Digital India program started by the government of India is a flagship program visioning Indian transformation into a digital economy. “Faceless, paperless, cashless” is the main role of Digital India. Thus to strengthen the program, the government of India went on for financial inclusion linking the bank accounts of people with their salaries and opening of bank accounts linked with aadhaar accounts under Jan Dhan scheme. In addition, the step of demonetization equally attributes towards making India move forward on the path of becoming cashless.

The Indian Economy continues to be driven by the use of cash; less than 5% of all payments happen electronically. In India, the ratio of cash to gross domestic product is 12.42% in GDP, which is one of the highest in the world. It was 9.47% in China or 4% in Brazil. Further, the number of currency notes in circulation is also far higher than in other large economies; India had 76.47 billion currency notes in circulation in 2012-13 compared with 34.5 billion in the US.

The Indian economy is strengthening by saving habit of Indian people to keep cash money with them. There are various myths about cashless transaction, which resist common person to divert towards cashless world. No doubt the technological framework & infrastructure for cashless concept is inadequate in Indian prospective but vital challenge is to change the attitude of common person who lives in 6, 50,000 villages of nation.

Review of Literature

Jain, P.M (2006) in their article “E-payments and e-banking—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. He also pointed out the need for e-payments and modes of e-payments.

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.

Zandi et al. (2013) studied whether the long-term shift to credit and debit cards stimulates economic growth of 56 countries worldwide. They discovered that electronic card payments can increase efficiency and boost consumption of the economy.

Mieseigha & Ogbodo (2013) Moreover, the adoption of electronic transaction is essential for transparency, accountability and reduction of cash related fraud, the fundamental elements of economic growth and development.

Liao and Handa (2010).Electronic payments will replace cheque payments extensively but cash-based payment will persist to a substantial extent.

Oyewole et al. (2013) exposed that adopting electronic payment will positively affect economic growth and trade.

Cashless Challenges in India

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

- **High Cash Dependency**

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.

- **Lack of Digital Infrastructure**

Lack of adequate infrastructure is a major hurdle in setting up a cashless economy. Inefficient banking systems, poor digital infrastructure, poor internet connectivity. The remote areas are still not having the banks at their doorstep. There are no ATM facilities in the remote areas. In 2014, there were just 18 ATMs and 13 commercial bank branches for every 100,000 adults – in comparison; the number in Brazil was 129 and 47 respectively. From 2013 to 2015, debit cards grew twice as fast as the number of PoS terminals and 1.5 times the number of ATMs, with the majority of the new infrastructure-taking root in urban centers. The banks need to be fully equipped to handle the surge in e-transactions. The first and foremost requirement of a digital economy is the penetration of internet and smart phone. Only 30% of subscriber use smart phones, over 70% of them are in cities while 70% of Indian population lives in villages.

- **Financial Inclusion**

About 60% of the country's population has bank accounts. Still large number of people is not having the bank accounts. More than 228 million accounts were opened under PMJDY (Pradhan Mantri Jan Dhan Yojana) scheme until July 2016. 252 Inspira- Journal of Commerce, Economics & Computer Science: Volume 04, No. 01, Jan.-Mar., 2018

- **Cyber Security Issues**

Another mounting challenge in digital payments is cyber security issues, with the magnitude with which digital transaction-taking place after demonetization the risk of online fraud, leakage

of confidential information, cyber-crimes, malware and virus attacks has been raising. This is the biggest concern to deal with in order to popularize digital payments.

- **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.

- **Costly Swipe Machines**

Swipe machines are also not subsidy free. Rich shopkeepers can only afford it. It cannot be expected from an auto driver or a normal grocery seller to afford swipe card machines. Besides, many street vendors, shopkeepers do not know how to use swipe machines.

- **Few Banks in villages**

The capital city New Delhi alone has about 20 HDFC bank branches. There are several villages and Tehsils that do not 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

Opportunities of Cashless Economy

The expenditure incurred in printing and transportation of currency notes is reduced. Cash less economy helps in curbing generation of black money.

- **Reduce cost of printing money**

Printing money is the direct cost that affects the bank (Reserve Bank of India). In the cash system of economy where maximum people will work on the cash transaction, government has to produce more and more cash notes.

- **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, it 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 it 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, this 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.

- **Transparency**

It is not just the easiest way to transact but also brings about a lot more transparency in the financial system, which helps to curb generation of black money.

- **Reduced Red-tapism and Bureaucracy**

With cashless transactions through electronic means, the wire transfers are tracked and people are accountable which in turn reduces corruption and improve service time.

- **Benefit to Government**

The government will benefit from the cashless economy in the area of adequate budgeting and taxation, improved regulatory services, improved administrative processes (automation), and reduced cost of currency administration and management (Ashike, 2011). Jimi Agbaje, one of the former governorship candidates on the platform of DPA in Lagos State states that the advantages of a cashless society range from regulating and controlling to securing the financial system of our economy.

- **Maintenance Cost**

Maintenance in the form of storage of notes, transportation of the notes to the distant places, security of the notes, and devices for the detection of counterfeit notes. The other major aspect of the maintenance is that the distribution of money through ATM machines at the different locations. It is reported that all this maintenance cost the government about 5% of the GDP of India. In nutshell we can save somewhere around 500 crores by this mean only.

Suggestions

A cashless economy is not just an effort by the government bodies but a revolution which has to be brought about to make people understand the benefits and finally empower them to transact digitally in their everyday life. From one's salary to their mobile recharge, all remittance if done electronically will lead to a more transparent and accountable society (Sparrow 2016). The transformation of the current payment method to a total cashless one may not be possible in the near future, but continuous innovation in technologically aided payment system will certainly expand the society's accessibility to cashless payment. Although the adoption of one type of cashless payment will affect another type of cashless payment in the short run, the consequences of adopting cashless payment on economic growth can only be significantly observed in the end. Hence, any policy that promotes cashless payment will not affect the economy immediately. The study suggests the futuristic card should evolve to use biometric ID (fingerprints, eye scan etc), it can be extremely difficult to copy, making it a very safe option. The banks should work on two-factor authentication process for online transaction. The measure suggested include encouraging installation of point of sale (POS) machine by rationalizing merchant discount rate (MDR) and allowing first five interbank transactions free of cost to promote online money transfer. Further,

more ATM should be setup so that people start using plastic money. It is also suggested to withdraw of surcharge or service charge or convenience fee on card and digital payments currently imposed by government.

Conclusion

The need to move towards a cashless economy in India is immense. One, it will save a huge amount of money that is spend 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.

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