

# Cashless Economy – Advantages and Challenges

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## Abstract

*The central government of India has embarked on the cashless economy. It is the birth of a new era in the nation with life with digital money. This paper is going to conceptualize the meaning of a cashless system. Explains online banking techniques in India, schemes by government to spread the cashless system in India and highlights the challenges of the cashless economy and electronic payment systems. The objective of this study is to examine the significant challenges that are faced by Indians on the way towards cashless. To achieve the objectives of this exploratory type of personal study , interviews will be conducted.*

**Keywords:** Cashless economy, Digital payment, Digitalization

**Classification-JEL :** N35, Y50

## 1. INTRODUCTION

There are various countries in the world which are going cashless. They use non cash payment for day to day consumption and expenditure. The awareness about the non cash method and cashless societies are introduced in this research. There are various reasons in which the country is to be digitalized. It has become necessary to understand about the cashless economy and it's features as now a days our country India is also going to be digitalized due to the increasing amount of black money. Cashless economy signifies that all the financial transactions in economy will take place through Plastic money, online payment, payment gateways or any other electronic form. The primary object behind cashless economy is to cover present non-registered transactions. The Indian government is trying to achieve objective of cash less economy through various means, which includes Credit and Debit cards, Unified

Payment Interface (UPI), Unstructured Supplementary Service Data (USSD), Aadhaar Enabled Payment System (AEPS), Mobile Wallets, Banks Pre-Paid Cards, Point of Sale, Internet Banking, Mobile Banking, and Micro ATM's etc. Even though India adopted digital payment system in its economy, still it has a long way to go. Countries like Denmark, Sweden, Canada, South Korea, etc have very much high percentage of cashless transactions—as about 85-90%. Norway has stopped issuing cheques. For these countries task of cash economy is easy than India because these countries are much smaller than India, have large educated population, higher penetration of organized retail and higher awareness about digital transactions than India.

## 2. OBJECTIVES OF STUDY

The main objectives of this study are:

- To understand and know about the history of the cashless transaction.

- To know about the outcomes of a cashless economy.
- To know the various methods and instruments used in a cashless transaction.
- To know about the positive and negative input of cashless transaction in the economy.
- To know how demonetization affects the cashless transaction.

### 3. 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.

### 4. VARIOUS METHODS OF CASHLESS TRANSACTION

- a) Mobile Banking :** Mobile banking is a service by a bank or other financial transaction remotely using a mobile device such as a phone or tablet. It uses software provided by the financial institution for the purpose. Mobile banking is usually available on a 24hour basis. Some institutions, as they have some restrictions, whose accounts may be accessed through mobile banking as well as a limit on the amount that can be transacted.
- b) Charge Card :** A charge card is a plastic card that provides one an alternative to cash when making purchases in which they issue the card holder and enter into an agreement that the debt incurred as the charge account will be paid in full and by the due date.
- c) Prepaid or Stored Value Cash :** Prepaid or stored value cash provides payment through a monetary value held on the actual card or a deposit in an account.
- d) Direct Debit or Direct Withdrawal :** Direct debit or direct withdrawal is an instruction that a bank account holder gives to his or her bank to collect an amount directly from another account.
- e) Bank Transfer :** A bank transfer is a method of transferring money from one person

or institution to another. A wire transfer can be made from one bank account to another bank account

**f) Debit card :** A debit card is a plastic payment card that can be used instead of cash when making a purchase. It is similar to a credit card but unlike a credit card, the money comes directly from users' bank a/c while performing the transaction. In many countries, the use of credit cards has become so widespread that their volume has overtaken or entirely replaced cheque and in some instance, cash transaction. A number of initiations have allowed debit cards issued in one country to be used in other countries and allowed their use for internet and phone purchase.

**g) Credit cards:** A credit card is a payment card issued to users to enable the cardholder to pay a merchant for goods and services based on the cardholder promises to the card issuer to pay them for the amount so paid plus other agreed charges. Nowadays the volume of credit cards has increased.

**h) PayTM :** PayTM is an Indian electronic payment and e-commerce brand out of Delhi NCR, India launched it as the consumer brand of the parent one and communication. The name is an acronym for pay through mobile. The company employs over 1,300 employees as of Jan 2017 and has 3 million of fine merchants across India. It also operates the PayTM payment gateway and the PayTM wallet.

**i) Phone pay :** PhonePe is an Indian digital wallet platform and online payment company headquartered in Bangalore, India. PhonePe was founded in December 2015. The PhonePe app, based on the Unified Payments Interface, went live in August 2016.

### 5. ADVANTAGES OF GOING CASHLESS

**a) Convenience :** The ease of conducting financial transactions is probably the biggest motivator to go digital. There will no longer be a need to carry wads of cash, plastic cards, or even queue up for ATM withdrawals. It's also a safer and easier spending option when one is

traveling and also in case of emergencies as in hospitals. One has the freedom to transact, whenever and wherever one wants. There is no need to be physically present to conduct a transaction and there is no compulsion of transacting during office hours only. The benefits are enormous, it is constructive and simple.

**b) Discounts :** The recent waiver of service tax on card transactions up to Rs 2,000 is one of the incentives provided by the government to promote digital transactions. This has been followed by a series of cuts and freebies. It's a good time to increase the savings if one takes advantage of these. For instance, 0.75% discount on digital purchase of fuel means that the petrol price in Delhi at Rs 63.47 per litre can be brought down to Rs 62.99/L with digital payment.

Similarly, saving on rail tickets, highway toll, or purchase of insurance can help cut the costs. In addition to these the cash back offers and discounts offered by mobile wallets like PayTM, as well as the reward points and loyalty benefits on existing credit and store cards could help to improve the cash flow marginally.

**c) Tracking expenditure :** It is easier to keep track of one's spending if all transactions are on record. It will also help while filing income tax returns and in case of a scrutiny, people will find it easy to explain their spends. Besides the tax, it will also have a good impact on budgeting.

**d) Budget discipline :** The written record will help keep tabs on people's spending and this will result in better budgeting, Various apps and tools will help people analyze their spending patterns and throw up good insights over a couple of years. Controlled spending could also result in higher investing. If the same amount of cash does not flow back into circulation and people continue to use mobile wallets and cards, it is also likely to bring down the latter factor. This means that the Rs 10 you spent on candy or chips, or that regular cup of office coffee is likely to take a hit since you will be

short of loose change and smaller currency notes. There's a lesser chance of budgetary leaks and unaccounted for spends sneaking into your budget at the end of the month.

**e) Lower risk :** If stolen, it is easy to block a credit card or mobile wallet remotely, but it's impossible to get your cash back. In that sense, the digital option offers limited security. This is especially true while traveling, especially abroad, where loss of cash can cause great inconvenience. Moreover if the futuristic cards are evolved to use biometric ID (finger prints, eye scan, etc), it can be extremely difficult to copy, making it a very safe option.

**f) Small gains :** It may not seem like much of an advantage, but being cashless makes it easy to ward off borrowers. Another plus is that you can pay the exact amount without worrying about not having change or getting it back from shopkeepers.

## 6. DRAWBACKS OF DIGITAL TRANSACTIONS

**a) Higher risk of identity theft :** The biggest fear is the risk of identity theft. Since Indians are culturally not attuned to digital transactions, even well-educated people run the risk of falling into phishing traps. With the rising incidence of online fraud, the risk of hacking will only grow as more people hop on to the digital platform.

Besides, the latest move by the government to remove the two-factor authentication process for online transactions up to 2,000, will not help. Irrespective of the size of transaction, the absence of this additional layer of security will expose thousands to the risk of identity theft. Another weak link is the inadequate redressal mechanism.

Given the tedious process and poor grievance redressal, people will have no easy recourse if they lose money online. There is no stringent legal process to deal with this kind or scale of fraud. In addition to this there is risk of mass identity theft from banks' or companies' databases and it can turn into a financial nightmare akin to the data breach in the Indian

banking system in October this year.

**b) Losing phone :** Since one will be dependent on the phone for all transactions on the move, losing it can prove to be a double trouble. It can not only make one susceptible to identity theft, but one could also be rendered helpless in the absence of physical cash or any other payment option. This can be especially problematic if a person is traveling abroad or in smaller towns or villages with lack of banking infrastructure or other payment options. Another drawback is that one need to keep the phone constantly charged. If the phone gets discharged in the middle of an important purchase or dealing with an emergency one will be stranded.

**c) Difficult for tech-unsavvy :** India has a low Internet penetration of 34.8%(2016), according to the Internet Live Stats, and only 26.3% of all mobile phone users have a smart phone (2015), as per statistic figures. Besides the practical difficulty of going digital is the bigger block of the psychological shift. One is suddenly jumping three generations to the digital medium. It is a problem for the older people, who may suddenly find themselves locked out of their accounts if they can't download an app or don't have cash. The digital medium may prove a

challenge for the tech-unfriendly people who will need more time to adapt or the availability of other options to conduct transactions.

**d) Overspending :** While there is no denying the convenience of card or mobile wallet transactions, it could open a spending trap for an unsuspecting population. According to behavioral finance theorists, the pain of parting with money is felt more acutely if one uses physical cash instead of a card. Hence, using cash instead of cards or mobile wallet will act as a natural bulwark for people who find it difficult to control their spending. This is the reason that people could end up overspending, throwing their budgets into disarray.

## 7. CONCLUSION

However, the number of cashless transactions have Increased Drastically. Especially youth is supporting cashless economy. India does not seem ready to go for fully cashless but partial cashless is also an option to adopt in current situation.

Rural settlements inclusion in this process will make the process faster. India could well use the example of countries like Denmark and Sweden which have managed to go completely cashless.

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