Role of Banks in Cash Less Economy

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ABSTRACT

Cash may not be king for long; the coins jangling in pockets or papers neatly folded in wallets are under threat. This paper presents the role of banks in cashless move. The study highlights that in a cashless economy the medium of exchange undergoes a change from cash to electronic medium. In a cashless economy the cash balance never becomes zero as international payments are settled in gold and dollars. “Faceless, Paperless, Cashless” is one of the proscribed role of Digital India. Besides small domestic payments are made in cash. Furthermore, in this paper some benefits of the cash-less economy like reducing cost of currency printing expenses, attacks the problem of black money, greater efficiency in welfare programs, increase tax collection are discussed. And also advantages and disadvantages of going cashless economy are also highlighted.

1. Introduction

Cashless is now the big buzz work in India, and the ball is rolling as the world’s largest cash economy begins going digital. The digital India programme is a flagship programme of the Government of India with a vision to transform India into a digitally empowered society and knowledge economy. “Faceless, Paperless, Cashless” is one of the proscribed role of Digital India. The basic functions of a banker is accepting deposits and extending loans and advances to borrowers. In a cashless economy the medium of exchange undergoes a change from cash to electronic medium. A high penetration of the digital payment system is contingent on the fact that the same amount of cash does not come back into circulation. If it does, people are more likely to switch back to the former ease of using cash as it is a habit that they may find difficult to break. In a cashless economy the cash balance never becomes zero as international payments are settled in gold and dollars. Besides small domestic payments are made in cash. Hence, cashless economy will act as panacea for Indian economy if and only if the regulators keep a sharp eye on any potential restrictive practices that banks may indulge into maintain their current dominance over the lucrative payments business.

B. Objective of the Study

➢ To study the importance of Cash-less economy.
➢ To study the role of the bank in cashless economy.
➢ To study the Advantages and disadvantages of going cash-less.

C. Methodology of the study

The study is based on secondary sources of data. The main sources of data are various Commercial Surveys of India, RBI bulletins, online data base, Journals, articles, newspapers, etc.

2. Cash-Less Economy

Cashless banking is that banking system which aims at reducing, but not eliminating the volume of physical cash circulating in the economy whilst encouraging more electronic transactions. In 2015, 87% of the total transactions in India took place in cash. Even Indians with access to formal banking carry a lot of cash with them usually in high denomination bills. Furthermore, cash fuels India’s huge informal or ‘black’ economy, where transactions are either kept off the books or are under-reported which worth at least 23% of the GDP. Benefits of the cash-less economy

➢ Reduces cost of currency printing expenses
➢ Attacks the problem of black money
➢ Greater efficiency in welfare programs
➢ Increase tax collection

To mitigate the challenges of the cashless policy it is recommended that power and electricity infrastructures should...
be put in place to provide support for electronic banking. Legal and regulatory framework that will prevent cyber crime should be put in place by the regulators. The mandate of anti-graft agencies should be expanded to cover fraudulent practices that are associated with operations of cash-less economy. Finally, the Reserve Bank of India (RBI) should embark on public enlightenment to educate the population on the nitty-gritties of the cashless system. This will raise the level of awareness and reduce possible resistance by the public.

So, cashless economy will act as panacea for Indian economy if and only if the regulators keep a sharp eye on any potential restrictive practices that banks may indulge into maintain their current dominance over the lucrative payments business.

Giving incentives such as a service tax waiver when credit cards or other forms of digital settlements are used will promote the use of cashless transaction.

The Reserve Bank of India too will have to come to terms with a few issues, from figuring out what digital payments across borders means for its capital controls to how the new modes of payment affect key monetary variables such as the velocity of money.

RBI will also have to shed some of its conservatism, part of which is because it has often seen itself as the protector of banking interests rather than overall financial development.

The above pie diagram shows the exact picture of the percentage of electronic payments in India. EFT/NEFT payment shows a major part of the transactions of 28%. Mobile banking shows only 4%, whereas prepaid payment instruments also shows similar to mobile banking of 6%. Debit and credit cards shows payments of 26% and 21% respectively. Further 15% is the payment in India of ECS transactions.

The above table shows the details of Bank account with mobile Wallets. Comparing to the year 2010, in 2016 there is a drastic increase of Banks vs. mobile wallets from 41,377 number of debit cards to 746,458 and also from 231,000 mobile subscribers to 9,735,694.

A. What is Cashless Economy?

- It can defined a situation in which flow of cash within economy is non-existent and transactions are done through electronic channels like debit card, credit card, electronic clearing, payments such as Immediate Payment Service (IMPS), National Electronic Funds Transfer and Real Time Gross Settlement in India.
- Cashless economy can well be reality in India, but there are some barriers which can be reduced with help of Government initiatives.
- Government must create awareness about benefits of cashless transaction and increase participation of rural population in banking by effective implementation of Jan Dhan Yojna.
- By putting in place robust payments mechanism to settle digital transactions which will help for safe transaction.

B. Bank A/Cs vs. Mobile Wallets

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C. Banks Role in a Cashless Move

“A cashless future is the real goal of India’s demonetization move”

India is currently in the middle of an all out movement to modernize the way things are paid for. New bank accounts are being opened at a heightened rate, e-payment services are seeing rapid growth, cash-on-delivery in e-commerce has crashed, and digitally-focused sectors like the online grocery business have started booming.

The biggest problem with India suddenly removing 86% of its currency from circulation without have an adequate supply of new notes ready to take their place is that fact that India is more reliant on cash than almost any other country on earth. Suddenly, hundreds of millions of people were left without the means to engage economically, to buy the things they wanted and needed, and myriad businesses were left without a readily available mechanism to receive
payment for their goods, to buy supplies, or pay their staff.

By temporarily turning off the engines which drove the cash economy, India hoped that more people could be brought into the fold by using trackable and taxable digital financing vehicles, like debit cards and e-wallets. “This is a public sector innovation unthought of in history. A cultural-economic revolution in the making!” exclaimed Monishankar Prasad, a New Delhi-based author and editor, about India’s demonetization initiative and subsequent drive towards developing cashless economy. Paytm reported a three-time surge in new users tacking on over 14 million new accounts. While OxigenWallet’s daily average users increased by 167% since demonetization began.

Crypto currencies like Bit coin and Asiadigicoins have also been the recipients of a positive upswing from Modi’s currency purge-with Bit coin in particular being driven up in value. The lack of cash in the economy combined with the buzz around electronic payments systems has also sparked some very innovative solutions. The farmers’ markets of Telangana began experimenting with their own electronic payment system where customers with Aadhar-linked bank accounts could buy vegetables using tokens which could be purchased via debit cards at specialized kiosks.

Digitalizing a wider swath of the economy is meant to be a fix for many aspects of India’s society that the government aims to reform. First, of all it creates a way for all purchases to be tracked and recorded, which can work towards limiting the effectiveness of the black market as well as stemming the flow of capital that’s destined to fund terrorist activities.

Economic digitization also increases the government’s ability to enhance its taxation systems. India’s informal economy is responsible for roughly 45% of GDP and 80% of employment, which means that billions of dollars are being exchanged each year without the tax collector taking his cut.

India hopes to create a cleaner, more transparent economy via digitalization that will lead to an improved climate for foreign investment, boost economic growth, and ultimately propel the country to the next chapter of its emerging markets story. To these ends, widespread grassroots education campaigns have been launched via government, business, and social entities across India to provide the basic technological know-how for an increased amount of people to get on the digital economic grid.

The way people pay for things is a cultural pattern, and such patterns are often hard to break. But once they are broken and new ways emerge, new patterns become solidified as societies update the way they function. Cashless is now the big buzz work in India, and the ball is rolling as the world’s largest cash economy begins going digital.

To incentivise the move towards a cashless economy, the government has come up with a rash of discounts and freebies on digital transactions. But will these be substantial enough and, along with other benefits, counter the higher risk of identity theft once the currency notes are back in circulations? What are the gains and drawbacks of financial digitization?

### 3. Advantages and Disadvantages of Going Cashless

#### A. Advantages

1. **Convenience:**
   The ease of conducting financial transactions is probably the biggest motivator to go digital. You will no longer 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 you are travelling.

2. **Discounts:**
   The recent waiver of service tax on card transactions up to ₹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 your savings if you take advantage of these. For instance, 0.75% discount on digital purchase of fuel means that the petrol price in Delhi at ₹63.47 per litre can be brought down to ₹62.99 per litre with digital payment. Similarly, saving on rail tickets, highway toll, or purchase of insurance can help cut your costs. Add 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, and it could help improve your cash flow marginally.

3. **Tracking Spends**
   If all transactions are on record, it will be very easy for people to keep track of their spending. It will also help while filing income tax returns and, in case of a scrutiny, people will find it easy to explain their spends.

4. **Budget Discipline**
   The written record will help you keep tabs on your spending and this will result in better budgeting. 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 latte factor. This means that the ₹10 you spent on candy or chips, of that regular cup of 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.

5. **Lower Risk**
   If stolen, it is easy to block a credit card of 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 travelling, especially abroad, where loss of cash can cause great inconveniences. Besides, if the futuristic cards evolve to use biometric ID (finger prints, eye scan, etc), they can be extremely difficult to copy, making it a very safe option.
6. Small Scan
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 changed or getting it back from shopkeepers.

7. Go Digital, Get Discounts
- Service tax: Waiver of service tax of 15% on digital transactions up to ₹2,000
- Fuel: 0.75% discount on digital purchase of fuel through credit/debit cards, e-wallets or mobile wallets.
- Rail tickets: 0.5% discount on monthly and seasonal suburban railway tickets from 1 January 2017. Online rail ticket buyers get up to ₹10 lakh free accident insurance too.
- Rail catering: 5% discount on digital payments for railway catering, accommodation, retiring rooms, etc.
- Highway toll: 10% discount on NH toll payment via RFID or fast-tags in 2016-17.
- Insurance: 10% discount by government general insurers on premium paid online via their portals. 8% discount on new LIC policies bought online via its site. POS: ₹100 a month is the maximum rent that PSU banks can charge for POS terminals.
- Rupay: Kisan credit card holders to get Rupaykisan cards

B. Disadvantages

1. Higher Risk of Identity Theft:
The biggest fear is the risk of identity theft. Since we are culturally not attuned to digital transactions, even well-educated people run the risk of falling into phishing trap. 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 transaction 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.
There is no stringent legal process to deal with this kind or scale of fraud. Add to it the 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.

2. Losing Phone
Since you will be dependent on your phone for all your transactions on the move, losing it can prove to be a double whammy. It can not only make you susceptible to identity theft, but you could also be rendered helpless in the absence of physical cash or any other payment option. This can be especially problematic if you are travelling abroad or in smaller towns of villages with lack of banking infrastructure or other payment options. Another drawback is that you need to keep your phone constantly charged. If the phone dies on you, you will be stranded, particularly if you are in the middle of an important purchase or dealing with an emergency.

3. Difficult for Tech-Unsavy
India has a low internet penetration of 34.8% (2016), according to the internet live stats, only 26.3% of all mobile phone users have a smart phone (2015), as per Statistic figures. 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.

4. 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 behavioural finance theorists, the pain of parting with money is felt more acutely if you use physical cash instead of a card. Hence, using cash instead of cards or mobile wallet acts as a natural bulwark for people who find it difficult to control their spending.
Besides, a high penetration of the digital payment system is contingent on the fact that the same amount of cash does not come back into circulation. If it does, people are more likely to switch back to the former ease of using cash as it is a habit that they may find difficult to break.

4. Summary and Conclusion
The study concludes that cashless economy will act as a panacea for Indian economy if and only if the regulators keep a sharp eye on any potential restrictive practices that banks may indulge into maintain their current dominance over the lucrative payments business. The advantages and disadvantages of going cash-less economy in India highlights a high penetration of the digital payment system is contingent on the fact that the same amount of cash does not come back into circulation. If it does, people are more likely to switch back to the former ease of using cash as it is a habit that they may find difficult to break.

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