

Cashless Economy to Curb Black Money

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ABSTRACT

Cashless economies are those that use mostly plastic or digital money and thus minimal cash or money in paper form. The ease of conducting financial transactions is probably the biggest motivator to go for digital transactions. This study develops a conceptual framework to understand the working of cashless economy and is there any possibility to curb black money from the economy which is a blocking stone in the path of economic development. The paper highlights the various objective of being cashless. It studies the different methods of cashless payment and the essentials for being cashless. The benefits of making a country cashless have also been included. The study also explains the hurdles coming in the way of making an economy cashless. The study examines the effect of adopting cashless payment on economic growth and development of the developing countries. The result put together gives us an important policy direction towards what can enable the country to increase cashless payments.

1. Introduction

A cashless economy refers to a situation where there is very little flow of cash in the society and thus much of the transactions are carried out by the electronic media. 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 minimum. It is an economic system in which transactions are not done predominantly in exchange for actual cash. It is not also an economic system where goods and services are exchanged for goods and services. It is an economic setting in which goods and services are bought and paid for through electronic media. Cashless economy does not mean a total elimination of cash as money will continue to be a means of exchange for goods and services in the foreseeable future. It is a financial environment that minimizes the use of physical cash by providing alternative channels for making payments. A cashless society is one where no one uses cash, all purchases being made by credit cards, charge cards, cheques and direct transfers from one account to another. In other words, it refers to the widespread application of computer technology in the financial system. While moving to electronic there is strong need to create robust electronic payments platform, which is not vulnerable to frauds.

2. Objectives of a Cashless Economy

India is moving towards a cashless economy to prepare a roadmap to boost transparency and financial inclusion. The digital or electronic transactions by using internet banking, credit cards etc facilitate cashless transfer.

- **Ease of Transactions**
 People can easily pay their bills online, shop and schedule transactions and manage all the finances using their laptops or smart phones.
- **Reduce Costs**

India has one of the highest cash to gross domestic product ratios in the world, and practicing economic activity with paper has costs. Production of coins and paper currency is an expensive endeavor and the life span of most of the paper currencies is about 6 years. Digital payments will save trillions of rupees for the Indian economy as it will help bring down the cost of cash.

- **Check for Corruption and Black Money**
 Shift away from cash will make it more difficult for tax evaders to hide their income. The overall idea is to reduce usage of cash and increase transparency in transactions. This helps to curb corruption and the flow of black money which results in an increase of economic growth.
- **Modernization of Payment System**
 Electronic payment is first step for modernization of payment system. An efficient and modern payment system is positively correlated with economic development, and is a key for economic growth.
- **Efficiency in Banking Transactions**
 The cost of banking services gets reduced and it is a drive for financial inclusion by providing more efficient transactions at a greater reach.
- **Managing Inflation and Driving Economic Growth**
 High cash usage results in a lot of money outside the formal economy, thus limiting the effectiveness of monetary policy in managing inflation and encouraging economic growth. To improve the effectiveness of monetary policy in managing inflation and for economic growth digital payment system supports a lot. In addition to that it curbs some of the

negative consequences associated with the high usage of physical cash in the economy.

- **High risk of Using Cash**

Cash encourages robbery and other cash related crimes. It can also lead to financial loss in the case of fire and flooding incidents. It can be reduced by cashless transactions.

3. Modes of Cashless Payment

Modes of cashless payment are ways of paying without cash. A cashless method is more transparent as every transaction can be traced easily as it leaves its footprints. Many smart people have adopted new cashless payment options. The alternative means of payment are as follows:

- **Cheques:**

The cheque is one of the oldest modes of cashless payments. In this method you issue a cheque for the specific amount to someone else. The cheque gets deposited in the respective bank. The bank processes a payment through a clearing house. The entire transaction done through cheque gets recorded and there is a proof of payment. However, there are instances where cheque payments get dishonored due to signature mismatch or insufficient fund. In order to avoid such issue, you can use other cashless payment options.

- **Demand Drafts**

Another mode of cashless payments is bank drafts. Demand draft never gets defaulted as it is signed by banker, except if they are fraudulent. However, they are less popular because you need to visit a bank in order to deposit cheque and demand draft.

- **Automated Teller Machine (ATM)**

ATM is a combined computer terminal, with cash vault and record -keeping system in one unit, permitting customers to enter the bank's book keeping system with a plastic card containing a Personal Identification Number (PIN). It can also be accessed by punching a special code number into the computer terminal linked to the bank's computerized records. It is cash dispensing machines, deposits, funds transfer between two or more accounts and bill payments. Automated Teller Machines will be used much frequently for making variety of online payments such as utility bills, T.V subscriptions, GSM recharges, etc. Customers are advised to keep their ATM cards (Debit and Credit) safe and never to divulge their PINs.

- **NEFT**

It is an online platform where banks exchange value thereby enabling the performance of interbank transfers such as NEFT and NIBSS instant transferring funds between banks for single or multiple beneficiaries for individual. NEFT payments are instant and immediate.

- **RTGS**

Real Time Gross Settlements is used to transfer sums in favour of a single beneficiary. Online transfer using RTGS is comparatively faster than cheque or DD. Online transfer can be done from anywhere using internet facility.

- **Mobile Money**

This is a product that enables users to conduct funds transfers, make payments or receive balance enquiries on their mobile phones.

- **E – Transfers**

E –transfer refers to electronic transfers which can be affected via the internet on PCs, laptops and other devices. Bank customers who have subscribed to internet banking can do basic banking transactions via the web.

- **POS Terminal**

Point of Sale (POS) terminals are deployed to merchant locations where users swipe their electronic cards through them in order to make payment for purchases or services instead of using raw cash. As the POS terminals are online real - time, the customers bank account is debited immediately for value of purchases made or services enjoyed.

- **Electronic Purses/Wallets**

E - Wallets that store card numbers and cash. This is a virtual wallet that can store credit card, debit card and other information. E – Wallets customer and merchant both require a smart phone with active internet connection. The most popular example of E – Wallet is PayPal. E –Wallet is simplest cashless method.

- **Mobile Wallets**

The next cashless payment method is Mobile Wallet. You do not need a debit card, credit card or internet banking password for making payment using a mobile wallet. Just load money in your wallet via IMPS and use it on the move. You can download mobile wallet app from play store. For example: Paytm, PayUmoney, Oxygen, Lime etc.

- **Credit Cards**

This is a plastic card for payment for the goods or items delivered. The limitation of this method is an availability of swipe card facilities (POS) at merchant end.

- **Debit Cards**

These were a new form of value transfer, where the card holder after keying of a PIN, uses a terminal and network to authorize the transfer of value from their account to that of a merchant.

- **Smart Cards**

A smart card is a plastic card with a computer chip inserted into it and that store and transacts data between users.

- **Personal Computer Banking (Home Banking)**

This term is used for a variety of related methods whereby a payer uses an electronic device in the home or workplace to initiate payment to a payee.

- **Electronic Cheque**

Electronic cheques are used in the same way as paper cheque –the clearing between payer and payee is based on existing and well known banking settlement system.

- **Digitized 'E-Cash' Systems**

E-cash payment system takes the form of encoded messages and representing the encrypted equivalent of digitized money.

- **UPI Apps**

UPI is a mobile payment system which allows you to do various financial transactions on your smart phone. UPI allows you to send or receive money using virtual payment address without entering bank information. Merchant can enroll with banks to accept payments using UPI. The examples of few UPI apps are SBI pay, ICICI pocket, PNB UPI.

4. Essentials for Being Cashless

To move towards a cashless economy, the country needs essentials discussed as under:

- **Power**

Power must be improved dramatically to accommodate for smooth operations of financial activities. The State of a country is essential for carrying the load of a cashless society. ATMs, point of sales system, mobile banking and other mediums have to dramatically expand to the whole economy before any meaningful effect can be achieved.

- **Availability of Real Data**

Proper and accurate identification of account holders must be maintained and shared when necessary by all financial institutions. The collaboration of government and private agency are responsible for collection of identification of individuals for reconciliation of any identification.

- **Investments**

Technology is not cheap and ever changing at a very fast pace. Investments in billions of dollars made in infrastructure, training, marketing, security, maintaining its networks and so on will be on a yearly basis for the years to come and should be a collaboration of efforts by all invested parties.

- **Security**

The security of the proposed and existing systems of payment must be enhanced to protect the users from malware, hackers, fraudsters, viruses and identity theft. As it relates to laws, there are needs to enforce new methods of transactions and a changing culture, the government must partner and work with the National Assembly to ensure proper legislation is been formulated.

- **Online, Real-time, Every Time**

These alternative means of payment requires that the different media used should be online real-time and every time. For those who have experienced downtime in banks, it is totally a frustrating experience. The devices must be online for the transactions to sail through. For POS terminals, it has been announced that dual-sim POS terminals will be used to minimize downtime.

- **Awareness and literacy among masses**

Another very important factor in the successful implementation of a cashless economy is the levels of awareness and literacy, of the population.

- **Security from internet-related crimes**

The issue of security is very serious, with country like India, having been described as the hub of internet scam; one can only wonder how the vulnerability of the cashless system to various forms of internet-related crimes will be addressed. The regulatory agencies in the financial sector ensures that service providers adhere to minimum security standards on their web-based platform, the current move by the country towards a cashless economy may end up being a fruitless exercise.

Thus, security concerns on the web, the platform of cashless economy, are massive. India is experiencing with cases of internet scam and this will only increase as one enters into the e-payment era if the issue of security is not comprehensively addressed. Another facet to the cyber security concerns is the recent spate of cyber-attacks worldwide. A sufficiently sophisticated system to scale the hurdle of cyber-attacks is capable of derailing the whole cashless system. There is the need for proactive measures by companies in the country to put up a defensive mechanism against these attacks.

How many people in a country has access to bank and how many are bank-less and how many have access to bank but do not use it for many reasons. Gaps of such issues impact any economy at large. What happens in India on 8th Nov 2016 is remarkable achievement for digital money and overnight moves towards demonetization which many people felt highly inconvenient. If we look this idea from removing back money prospective then again not a good idea as black money hoarders (20% out of 100% of Indian population) are not at all fearful. An official figure of cash currency discontinued (As technically this can't be called as demonetization because INR 2000 (USD \$29.4) currency paper came out against previous high value INR 1000 (USD \$14.7) is 86% percent of cash in

circulation in Indian economy. In 6 months if all 100% of 86% money comes back to bank then only 10% get penalized with 50% tax which means only 50% of 10% of 86% cash profit for RBI or government and only that much as loss to black money mafia. Cashless transactions are 2% in India, 10% in China, 45% in US and highest 60% in Netherlands and no country in the world is free from black money.

5. Benefits of a Cashless Economy

The ease of conducting financial transactions is probably the biggest motivator to go digital. Cash less payments have several advantages, which were never available through the traditional modes of payment, some of which are; privacy, integrity, compatibility, good transaction efficiency, acceptability, convenience, mobility, low financial risk, anonymity. There are many benefits of a cashless discussed as under:

- **Ease of Conducting Financial Transactions:** First of all there is an ease of conducting financial transactions, which is probably the biggest motivators to go digital. In cashless payment there is no need to carry wads of cash or even stand in long queues in bank. It will be easy to carry money with you during travelling. It will be especially useful in case of medical emergencies. You can pay easily during working hours also.
- **Reduce Risk:** The policy will help fight against corruption/money laundering and reduce the risk of carrying cash, reduced cost, corruption and money laundering.
- **Reduced Tax Avoidance:** Thirdly, the cashless economy gets benefit of reduced tax avoidance. The recent waiver of service tax on card transactions also promotes digital transactions. This has been followed by a series of cuts and freebies. People will get discount on digital purchase which will cut their cost. Add to these the cash back offers and discounts offered by mobile wallet 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.
- **Reduced Tax:** Taxation with lesser availability of hard cash at homes and more in banks, there is lesser scope of hiding income and evading taxation and when there is more tax payer it ultimately leads to a lesser rate of taxation for the whole country.
- **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.
- **Reduce prices of real estate:** Further, it will reduce real estate prices because of curb on black money as most of black money is invested in real estate prices which inflates the prices or real estate markets. In India, every year RBI spent lots of money (2 billion, 2015) on just the activity of currency issuance and management. It will also leads to lesser funding for illegal trades and activities including terrorism.
- **Hygiene:** It will also help in improving hygiene on site eliminating the bacterial spread through handling notes and coins.
- **Reduced Fear of Theft:** It will lower risk, it is easy to block a credit card or mobile wallet remotely, but it is impossible to get your cash back.
- **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.
- **Lesser Interest Rates:** More currency in bank will mean more circulation of money in the economy, leading to greater liquidity and would eventually mean lesser interest rates.
- **Efficiency:** Cash collection made simple as time spent on collecting; counting and sorting cash is eliminated it will lead to efficiency gains. There will be greater efficiency in welfare programmes as money is wired directly into the account of recipients' Further it reduces transfer/processing fees, increases processing/transaction time, offers multiple payment options and gives immediate notification on all transactions on customers' account.
- **Track on Spending:** If all transactions are on record, it will be very easy for people to keep track of their spending.
- **Benefits to Banks:** It is also beneficial to the banks and merchants; there are large customer coverage, international products and services, promotion and branding, increase in customer satisfaction and personalized relationship with customers and easier documentation and transaction tracking.
- **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, 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.
- **Curbing black money:** Digital transactions alone cannot curb black money or economy. Black economy can be curbed more by institutional changes by striking at the non-cash portion along with the digitization of transactions. The activities generating

black economy need to be identified such as real estates, jewelry, doctors, higher educational institutions, etc. The following steps may be taken to curb black economy, besides changing mindset of the people for hoarding and towards tax fears:

- Raising IT exemption limit.
- Lowering and simplifying direct and indirect tax structure.
- Lowering stamp duty on land and real estate transactions.
- Introduction of GST taxing at the source of manufacturing or imports. This will eliminate sales without bills.
- Bringing back black money stashed abroad.

People have already invested their so-called black money in property, real estates, gold, bit coin, forex and paid back all long out-standing bills and loans. India eliminated 23 billion currency bills from circulation in an effort to fight tax evasion and corruption. November-2016 loan recovery for the entire Indian lending market was the record high in Indian history (91% plus). Some of the people have even paid for many months in advance along with clearing their long pending dues. Digital money is burdened with risks as well. Whereas physical cash leads to vulnerabilities of tax evasion, black money and fake currency; digital money is at risk from data leaks and identity theft online. As per the report from Bloomberg; the value of dollars and euros in circulation has doubled since 2005, to \$1.48 trillion and €1.1 trillion, respectively. Some of that growth can be explained by demand for these currencies in foreign countries, but there's also plenty of evidence that Europeans and Americans are still carrying around wads of cash.

6. Conclusion

Cashless economy describes an economic state whereby financial transactions are not conducted with money in the form of physical banknotes or coins, but rather through the transfer

of digital information between the transaction parties. From the analysis above, the paper discovered that the adoption of the cashless economy policy can enhance the growth of financial stability in the country. It appears that much has already been done in making the people aware of the cashless economy and that a sizeable proportion of the people are actually awaiting the introduction of the cashless economy.

Cashless economy initiative will be of significant benefits to developing economy; hence the cashless system will be helpful in the fight against corruption and money laundering. One most significant contribution of the cashless economy is that it is expected to reduce the risk associated with carrying cash. Since most transactions will now be settled electronically, people will have less need to move around with cash and therefore, loss of cash, theft and armed robbery will drastically reduce. It will also be effective in solving the problems faced in the financial sector.

The essential elements needed for the adoption and implementation of the cashless economy is not yet available in the adequate quantity. It was also discovered that the adoption of the cashless economy will achieving economic development and stability goals, operating it is a wise strategy for fast tracking growth in the nations' financial sector.

Thus because of the multiplying effect of the benefits many developing economies are adopting the cashless approach and are going digital. This is a mammoth task and requires the infrastructure to be robust and have a reach in the entire consumer base as well as the traders and businessmen. It is up to the governing bodies of the countries to provide a push to banks and telecom companies to improve the mobile and net banking ecosystem so as to provide a seamless end solution to customers as well as traders.

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