

Indian Economy from Cash to Cashless

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ABSTRACT

Cash is like water, a basic requirement of life without which existence of an economy is a challenge. In a country like India almost transaction are based on cash. Government of India launched digital India program with a vision to transform India into a cashless and paperless economy. Digital economy will improve our banking system by supporting financial inclusion. Now customer can use different methods for payment like Mobile Wallets, Plastic Money, Net Banking, Mobile Banking, NEFT, RTGS etc. This paper is discussing about advantages, challenges and drawback of digital transactions. It is found that banks are facing many challenges like lack of digital infrastructure; lack of consumer awareness and lack of security. Advantages of digital transaction are convenience, discount, lower risk, proper spending track of budget etc. Govt and bank should take different step like reducing charges in different e-banking mode, tax rebate for consumers and merchants, controlling cyber crime, boosting consumer confidence in e-banking and adopting policies for promoting digitalisation in India.

1. Introduction

Cashless economy is the economy in which transaction are made without cash. Cashless transactions have existed from past time in form of barter system and also became possible in modern age using digital currencies. Cashless transactions are more convenient than cash transactions.

2. Objectives

1. To study advantages and disadvantages of cashless economy
2. To study challenges of moving from cash to cashless
3. To suggest measures to overcome the problem

3. Research Methodology

For this study, secondary data is collected from different Journals, Articles, and Websites.

4. Methods of Digital Payment:-

Banking Cards: - Debit cards, credit cards are issued by bank. These cards offer the facilities of digital payment with more security, convenience and control. PIN and OTP provides authentication for secured payments.

USSD: - Unstructured Supplementary Service Data service allows mobile banking transaction and does not require internet facility. *99# service includes interbank transfer, balance enquiry, fund transfer and other services.

AEPS: - Aadhar Enabled Payment System allows online interoperable financial transaction of POS through business Correspondent using aadhar authentication.

UPI: - Unified Payment Interface is a system that powers multiple banks accounts into single mobile applications. Each bank provides its own UPI app for smartphones.

Mobile Wallets: - Mobile Wallet carry cash in digital format. User can transfer money online to mobile wallet instead of using debit cards, credit card user can pay with smartphones. E.g: paytm, sbi buddy.

Bank Prepaid Cards: - Prepaid card is a plastic card. Like debit card, credit card prepaid card is not linked to bank account, user need to load money into the card before using it. Main advantage of prepaid card is that it controls overspending.

Mobile Point of Sale: - Mobile POS is software that helps user to make transactions faster than other device. It increases sale, reduce costs and reduce processing time. It accepts any form of payments.

Internet Banking: - It is also known as e-banking. It is an electronic payment system that allows customer of a bank to conduct a range of transaction through websites. Internet banking includes NEFT, RTGS, ECS, and IMPS etc.

Mobile Banking: - Mobile banking is a service provided by bank to customers that allows performing financial transaction through mobile phones by using app.

Micro ATM's:- It means to a device that is used by shopkeeper to deliver basic banking services. Micro ATM's enable a person to instantly deposit or withdraw found with a particular business correspondent.

5. Advantages of Cashless Economy:-

Less Crime: - In cashless system, it is not easy to steal money in compare to cash. In cash less transaction, there is record of every transaction, it overcome the illegal transaction, black money and corruption.

Proof of Every Transaction: - It is difficult to save taxes if there is proper record of every transaction. In a cashless

economy sources of funds and application of funds can be easily deducted.

Less Management Cost: - In cashless economy, there is less management cost of printing bills and coins, transportation, storage and distribution of digital currencies. It also reduce the issuance of fake currency

International Payments: - In a foreign country people may need not to buy local currency if both countries handle cashless transactions. With the help of mobiles, use can easily make payments.

Discount on Transactions: - User receives discount on digital payment and cash back offers by mobile wallets like paytm.

Ex: 5% discount on digital payment for railway catering retiring rooms etc.

10% discount on NH toll payment via RFID

Tracking Expenses: - It becomes easy for the people to control their expenses in cashless transaction because it is easy to keep record of their spending in digital payment system.

No need to have Odd Change: - With help of cashless payments user can make the exact payment like 98rs. and 102rs. So there is no need to give odd change and take odd changes.

Cleaner and Greener: - Cashless payments contribute to a cleaner and greener country, more digital transaction would mean less use of paper. This would definitely help the environment because less requirement of paper lesser trees being cut.

Faster Transaction: - Digital payment improves speed of services and reduces the time to be in a queue at POS terminals and vending machines.

6. Disadvantages of Cashless Economy

Lack of privacy: - Digital payment means lack of privacy, user has to disclose account information in online banking transaction and hackers steal the information and misuse it.

Overspending: - Use of credit card led to an increase in overspending, people buy things that not so much necessary for them. With electronic payment, it is easy to pay without noticing how much you spend.

Transaction Charges: - Transaction charges are a big disadvantage in making online payments. A percentage of amounts are added in online payments.

Ex: if user pays with credit cards, extra payment is deducted from balance.

Difficult to Handle: - Digital transaction is difficult to handle user must have electronic device to make digital

payments and bank accounts are needed to be open for online banking.

Fraud Activities: - When payment transaction is stored in servers it increased the risk of hacking. Electronic accounts are vulnerable to unauthorised access and transfer of funds to another account.

Costly for Poor People: - Cashless transactions are difficult to manage for people they need to open bank account and bank charges fees below minimum balances and annually charges of ATM's.

7. Challenges in Cashless Economy

People Resistance: - Resistance of people in use of cashless transaction is a biggest challenge in a country like India. In India almost 80% transaction are made in cash. And it requires time to convert transaction from cash to cashless.

Rural Background: - People in rural area still don't know how to use technology. For the people of rural area, mobile is still a mode of communication only. They are not aware about online banking, cashless transaction.

Lack of Digital Infrastructure: - In a big country like India, there is only 2.4 Lakhs ATM's only for 1.3 billion population and most of the people don't have bank accounts. Lack of proper internet network is also a big problem in doing cashless transaction.

Small Shopkeeper: - Small shopkeeper do not have facility of cashless payment. They cannot afford swipe machines expenses for cashless transaction. They don't know how to use swipe machines.

Language Barrier: - Internet is an English based platform. Information on plastic cards is also in English. Details of transaction on mobile are also in English so language creates a big problem in use of online transaction.

Lack of Trust: - Merchants as well as customers do not trust over the use of plastic money. People do not feel secure in cashless transaction.

High merchant Discount rate: - A percentage of amounts is deducted from cash purchase by card issuing authority or bank. It depends on volume of purchase. For small shopkeeper, it is not beneficial to move from cash to cashless.

Risk of Security: - The biggest fear in the mind of people is the risk of information theft. Even educated people have risk of falling into frauds.

8. Remedies to Overcome Challenges:-

Create awareness: - Government should take steps to create awareness among the people to promote cashless transactions. Government should take steps to educate people in rural area .

Improve infrastructure: - Digital infrastructure should be improved according to load of population. More ATM's should

be open in rural areas. Banks should be open in rural areas to promote banking system.

Financial security: - Lack of privacy and security is a big challenge in cashless economy. Financial institution should take steps to safeguard online transaction,

Reduce transaction cost: - transaction cost on cashless transaction should be reducing to promote customers. Extra amount should not be charge to make payment online.

Digital literacy: - In rural area people do not know how to use internet. To promote digital transactions government should take steps to provide technical knowledge to people of backward area.

9. Government Initiatives to promote Digital Payment

1. 0.75% discounts of the sale price on purchase of petrol /diesel if payment is made in digital form.
2. Central governments through NABARD provide financial support to eligible banks for installation of 2 POS each in 1 lakh villages.
3. Center government through NABARD support RRB to issue Rupay Kissan Cards which help to make digital transaction.
4. Railway Board provided accidental insurance upto Rs.10 LAKH on buying online tickets.

5. Public sector insurances companies provide discounts up to 10% of premium in general insurance policies if payment is made in digital form.
6. Center government department ensure transaction fee free payment for customer's monthly rental up to Rs.100 is charged from merchants for POS.
7. 10% discount for payment of toll by using RFID card
8. No service tax is charged for transactions up to rs. 2000 per transaction
9. 5% discounts offered by railway on paid services e.g. catering, retiring rooms etc.
10. Jan Dhan Yojna was started by government with the purpose to link all people with banks.

10. Conclusion

Overall, Digital India is necessary for economic growth of our country and which can be promoted by adopting different mode of payment like Debit card, net banking and mobile wallet etc. Consumer will adopt these methods when all challenges will be reduced. So efforts should be made to reduce all problems faced by consumers for promoting cash to cashless economy. Company, customers and the government should collectively contribute to minimize risks in cashless transactions.

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