

Cashless Transactions: Opportunities & Challenges

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Abstract:

Cashless transactions can be defined as 'designating or of financial transactions handled as by means of credit cards, bank transfers, and checks, with no bills or coins handed from person to person'. A cashless economy is an economic state in which all the financial transactions are not conducted with money or the physical notes, but rather in the form of the transfer of digital information (usually an electronic representation of money) between the two or more transacting parties. Current paper focuses on Opportunities & Challenges in cashless transactions.

Introduction:

Cashless transactions can be defined as 'designating or of financial transactions handled as by means of credit cards, bank transfers, and checks, with no bills or coins handed from person to person'. A **cashless economy** is an economic state in which all the financial transactions are not conducted with money or the physical notes, but rather in the form of the transfer of digital information (usually an electronic representation of money) between the two or more transacting parties.

India continues to be driven by the use of cash; less than 5% of all payments happen electronically, however the finance minister, in 2016 budget speech, talked about the idea of making India a cashless society, with the aim of curbing the flow of black money. Even the RBI has also recently unveiled a document — **"Payments and Settlement Systems in India: Vision 2018"** — setting out a plan to encourage electronic payments and to enable India to move towards a cashless society or economy in the medium and long term.

Cash was really a king in Indian Markets till the demonetisation decision of Narendra modi's government on 8 October 2016, but a very few countries are a step ahead of the rest in toppling this throne of a cashless society. It is well known that the cost of handling cash is high, but still it is in the interest of governments, banks and businesses to push the civilians towards cashless

society. In some countries, effective policies measures have made a remarkable difference, while in others; it is thanks to consumers being more open to using mobile or plastic payments. In India there are 98 per cent of total economic transactions by volume which are done through cash. However, this may no longer be the case in future as the government has already steered the country towards cash less society. Prime Minister's demonetisation move has also divided the top economists in and outside the country over its unquantifiable outcomes, at least for now. But, the real question is that whether India can really transform itself into a cashless economy or less cash economy - as government terms it.

➤ What is a cashless economy and where does India stand?

- A cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal.
- India uses too much cash for transactions. The ratio of cash to gross domestic product is one of the highest in the world—12.42% in 2014, compared with 9.47% in China or 4% in Brazil.
- Less than 5% of all payments happen

electronically

- 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.
- Some studies show that cash dominates even in malls, which are visited by people who are likely to have credit cards, so it is no surprise that cash dominates in other markets as well.

➤ **Benefits of Cashless economy**

- Reduced instances of tax avoidance because it is financial institutions based economy where transaction trails are left.
- It will curb generation of black money
- Will reduce real estate prices because of curbs on black money as most of black money is invested in Real estate prices which inflates the prices of Real estate markets
- In Financial year 2015, RBI spent Rs 27 billion on just the activity of currency issuance and management. **This could be avoided if we become cashless society.**
- It will pave way for universal availability of banking services to all as no physical infrastructure is needed other than digital.
- There will be greater efficiency in welfare programmes as money is wired directly into the accounts of recipients. Thus once money is transferred directly into a beneficiary's bank account, the entire process becomes transparent. Payments can be easily traced and collected, and corruption will automatically drop, so people will no longer have to pay to collect what is

rightfully theirs.

- There will be efficiency gains as transaction costs across the economy should also come down.
- *1 in 7 notes is supposed to be fake, which has a huge negative impact on economy, by going cashless, that can be avoided.*
- **Hygiene** – Soiled, tobacco stained notes full of germs are a norm in India. There are many such incidents in our life where we knowingly or unknowingly give and take germs in the form of rupee notes. This could be avoided if we move towards Cashless economy.
- In a cashless economy there will be no problem of soiled notes or counterfeit currency
- Reduced costs of operating ATMs.
- Speed and satisfaction of operations for customers, no delays and queues, no interactions with bank staff required.
- A Moody's report pegged the impact of electronic transactions to 0.8% increase in GDP for emerging markets and 0.3% increase for developed markets because of increased velocity of money
- An increased use of credit cards instead of cash would primarily enable a more detailed record of all the transactions which take place in the society, allowing more transparency in business operations and money transfers.

This will eventually have the following chain effect:

1. **Improvement in credit access and financial inclusion**, which will benefit the growth of SMEs in the medium/long run.
2. **Reduce tax avoidance** and money laundering thanks to the higher

traceability of all the transactions.

3. The increased use of credit cards will definitely reduce the amount of cash that people will carry and as a consequence, reduce the risk and the cost associated with that.

Challenges in making India a cashless economy

- Availability of internet connection and financial literacy.
- Though bank accounts have been opened through Jan Dhan Yojana, most of them are lying unoperational. Unless people start operating bank accounts cashless economy is not possible.
- There is also vested interest in not moving towards cashless economy.
- India is dominated by small retailers. They don't have enough resources to invest in electronic payment infrastructure.
- The perception of consumers also sometimes acts a barrier. The benefit of cashless transactions is not evident to even those who have credit cards. Cash, on the other hand, is perceived to be the fastest way of transacting for 82% of credit card users. It is universally believed that having cash helps you negotiate better.
- Most card and cash users fear that they will be charged more if they use cards. Further, non-users of credit cards are not aware of the benefits of credit cards.
- Indian banks are making it difficult for digital wallets issued by private sector companies to be used on the respective bank websites. It could be restrictions on using bank accounts to refill digital wallets or a lack of access to payment gateways. Regulators will have to take a tough stand against such rent-seeking

behaviour by the banks.

➤ Steps taken by RBI and Government to discourage use of cash

- Licensing of Payment banks
- Government is also promoting mobile wallets. Mobile wallet allows users to instantly send money, pay bills, recharge mobiles, book movie tickets, send physical and e-gifts both online and offline. Recently, the RBI had issued certain guidelines that allow the users to increase their limit to Rs 1,00,000 based on a certain KYC verification
- Promotion of e-commerce by liberalizing the FDI norms for this sector.
- Government has also launched UPI which will make Electronic transaction much simpler and faster.
- Government has also withdrawn surcharge, service charge on cards and digital payments

➤ What else needs to be done?

- Open Bank accounts and ensure they are operational.
- Abolishment of government fees on credit card transactions; reduction of interchange fee on card transactions; increase in taxes on ATM withdrawals.
- Tax rebates for consumers and for merchants who adopt electronic payments.
- Making Electronic payment infrastructure completely safe and secure so that incidents of Cyber crimes could be minimized and people develop faith in electronic payment system.
- Create a culture of saving and faith in financial system among the rural poor.
- 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.

- The regulators also need to keep a sharp eye on any potential restrictive practices that banks may indulge in to maintain their current dominance over the lucrative payments business.

➤ **Conclusion:**

A cashless economy comes with its own harms and threats, most importantly that of cyber crime and illegal access to private data.

➤ **References:**

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And without doubt an era of cashless economy is certainly a bit far off for now. The Jan Dan Yojana is a big step towards that direction. Though it will take time for moving towards a complete cashless economy, efforts should be made to convert urban areas as cashless areas. As majority of India's GDP now comes from urban areas if government can convert that into cashless it will be a huge gain. Therefore different trajectories need to be planned for migration to cashless for those having bank account and for those not having. The time in future & the government steps will show the success or the failure of Cashless economy for India.