

Benefits and Pitfalls of Cashless Transactions

Pathan Mohsin Khan¹, Shaikh Md. Altaf

Research Scholars,

¹School of Commerce & Management Sciences, S.R.T.M.U, Nanded.

²S.R.T.M. University, Sub Center, Latur

Abstract:

Cashless India, 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 professed role of Digital India.

Developments in electronic payment systems have evoked considerable interest over the last two decades, Card-based products designed to facilitate retail payments act as a good substitute for bank notes and coins and complement traditional non-cash instruments Such as cheques. Similarly network-based or software-based products are also designed to facilitate payments over the Internet. A switch over from paper to electronic media is likely to cut deeper inroads into the strengthening of functioning of the government, reduction of costs for bankers and customers alike. Also, the risks in handling and transportation, the delays in executing the payment and the possibility of disputes over the settlement of the transaction are minimal.

The cashless transaction is soon becoming the most preferred option and there are a number of benefits of going cashless. The digital or electronic transaction of the capital by using net banking, credit cards etc. is called cashless transfer. People can easily pay their bills online, shop and schedule transactions and manage all the finances using their laptops or smartphones.

Key Word: Demonetization, Digital India, Digital/Cashless transactions.

1. Introduction

The whole country is witnessing the effects of demonetization and with our Prime Minister hinting at a cashless economy, many people are left in confusion. How would a cashless economy be beneficial is the question of many.

Cashless India. 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 professed role of Digital India.

Demonetization encourages cashless transactions as when transactions via digital or means increase the amount of money printed decreases and thus reducing the cost of printing as well as black money circulation.

Cashless transaction means financial transaction

handled by means of credit cards, bank transfers, checks with no bills and coins handed from one person to another. Cashless transactions can be done by three types:

Mobile Wallet: Mobile wallets are essentially digital versions of traditional wallets that a person would carry. While there are many variations, usually they can hold digital information about credit and debit cards for making payments, store coupons and loyalty programs, specific information about personal identity and more. A lot of companies have started to prefer this mode of cashless transaction for both receiving as well paying. A few examples mobile wallet are paytm, USSD etc.

Plastic Money: Plastic money is used to refer to credit cards, debit cards and forms of prepaid cards. It is easy to use plastic money as a huge amount of money is not needed to carry around. Here transactions take place on the basis of credit and debit. In case of credit cards payment is made after the purchase of goods. In case of debit cards payment is made by debiting amount from one's bank account directly. In case of other prepaid cards the amount is already paid in the card before purchase or use of the card for usage.

NET Banking: Internet banking is a convenient way to do banking from one's home or office. It avoids the queue and delay in the banks. It saves a lot of time and energy. It is a secure way of banking. Various methods of net or electronic banking are, National Electronic Fund Transfer (NEFT), Real Time Gross Settlement (RTGS), Immediate Payment Service (IMPS) etc.,. There are various misconceptions on cashless transactions on account of personal information being misused. There are various laws which prevent cyber contravention. Cyber contravention deals primarily with unauthorized access to computer, computer system or computer network. Cyber Contravention is subject to civil prosecution and proceedings. Penalty of cyber contravention is to pay for the damages and compensation not exceeding one crore rupees.

Benefits of Cashless Transactions:

Moving towards a Cashless Economy: Here are the benefits of cashless transactions.

"The best way to get rid of black money is to get rid of the money"

Save Money and Time: Companies and governments will get efficient and they can reduce costs as they no longer need the manual accounting work to be done. The costs associated with accounting and handling cash is very high.

Less Cash Decreased Crimes: Business and

individuals can also avoid other costs as well. Theft often leaves a big hole in one's pocket. The risk of theft will continue until people carry cash and by going cashless the same can be reduced. This also leaves an impact on the government as they can then reduce the costs that the government spends on nabbing the culprits. In countries like the US, burglary and assault have dropped by about 10 % once the government shifted the payment made for social welfare to electronic transfer. The government, however, has to take measures to curb the online scam and identity theft incidents.

Production Costs of Coins and Paper Currency are reduced: Production of coins and paper currency is indeed an expensive endeavor and the life span of most of the paper currencies is about 6 years. So, by going electronic the cost of production gets reduced.

Cost savings of Note's printing: The cost of producing these notes is very high. This will decrease if go for a switch to cashless transactions.

Boost to GDP: Much better data of India's GDP including informal and service sector to understand what sectors are growing and where support is needed. As e-transactions increases, the GDP of the country increases too.

Increase in Tax collection: Tax collections will increase significantly and that revenue can be used for the benefit of society - building infrastructure, helping poor and less privileged people, education, health care etc. It can be used to lift Indians out of poverty and also fuel economic growth. Cashless economy will ensure increased tax collection, both direct and indirect.

Easier Financial inclusion: The shift from cash payment also reduces social costs. As there is greater acceptance of e-payments, it also enables financial inclusion. It also makes it easier to lend/borrow money.

Black Money no more: All cashless transactions become above ground and visible / traceable. So

they are taxable (less black money) and also encourage people to transact legally and pay taxes in this way. It will be very difficult to sustain black market without cash.

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," says Pai. This is especially true while travelling, especially abroad, where loss of cash can cause great inconvenience. Besides, if the futuristic cards evolve to use biometric ID (finger prints, eye scan, etc.), it can be extremely difficult to copy, making it a very safe option.

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 changed or getting it back from shopkeepers.

In addition to this, going cashless also has health benefits. With physical currency, the chance of spreading of germs is more. Reducing the amount of use of paper currency will reduce the germ transmission.

Highlights of the incentives announced by Government of India on the cashless transactions.

1) Discount on fuel Purchase: 0.75% discount on buying petrol and diesel through debit cards, credit cards and e-wallets.

2) PoS Machines in Village: Currently, there are 6.5 lakh Point of Sale (PoS) machines across the country. Villages with a population of up to 10,000 will get 2 Point of Sale machines free of cost and that one lakh villages will be selected for this scheme of availing free Point of Sales machine.

3) Ceiling on Monthly Charge on PoS Machines: Monthly rental for PoS terminals/Micro ATMs/mobile POS given by banks will be capped at Rs 100. This is aimed at bringing small merchants on board the digital

payment eco-system.

4) Discount on Suburban Railway tickets: Discount of 0.50% for purchase of Sub-urban railway monthly and seasonal tickets from 1 January 2017

5) Insurance Cover for Rail Travellers: Railways will provide free accident insurance coverage of Rs. 10 Lakhs for passengers who are booking the tickets online. Currently, 58 percent passengers buy tickets online

6) Discount on Rail Utilities: Railways will also offer 5 per cent discount on digital payments for accommodation, catering and retiring room bookings at railway stations

7) Service Tax Exemption: No service tax will be charged on credit and debit card payments on transactions of up to Rs. 2,000 in a single transaction.

8) Discount on Highway Toll: For online payment of toll on national highways using RFID card/fast tags a discount of 10 per cent will be offered.

9) Discount on Insurance Premiums: Customers paying payments through online gateways of public sector general insurance companies will be given a 10 percent discount. The discount will be 8 percent for premium of new life policies made through the portal of Life Insurance Corporation (LIC)

10) Rupay Cards to Farmers: Rural Regional Banks and Co-operative Banks to issue 'Rupay Kisan Cards' to 4.32 Crore Kisan Credit Card Holders. This will benefit farmers of 1 Lakh village covering a total population of nearly 75 Crore who will have facility to transact ceaselessly in their villages for their agri needs.

11) Public dealings with government departments and PSUs through digital mode will be free of transaction fee and MDR charges.

Pitfalls of Cashless Transactions:

Less awareness: Many poor people do not have bank account. Although the Jan Dhan Scheme launched by the government succeeded in

bringing million into the banking system, the process is not complete and many of the accounts are non-functional. The government has to rectify this problem and bring the entire poor and marginalized section into the banking system.

Dealing only in Cash: The small retailers in India deal only in cash and have not been able to invest in the digital infrastructure.

Extra Charges on Transactions: The taxes, surcharges and the fees charged on digital transactions need to be made liberal in order to encourage the people to adopt the practice. Otherwise the public would not be willing to move towards a cashless society.

Hacking & Cyber Crime: Hacking and cyber theft are grave dangers that plague the digital world. Hackers can steal information and money from anywhere in the world. The challenge before the government is to put strong security systems in place to protect the online transactions from the hackers. Researchers have shown that it is easy to crack the PIN number and gain access to the virtual wallet by using software, if the cyber-criminal gets possession of the victim's phone.

Uneducated: The Indian public is not much educated with regards to the benefits of using cards or online payment methods. A vast majority prefer using cash as a convenient method of payment. Even the card holders consider cash to be a quick method and easy method.

Risk Factors:

Following are the risk factors of cashless transactions consider these additional risks:

- I. If your phone dies, you won't be able to pay for anything.
- II. It's very easy to shut down a digital wallet remotely, and that potentially exposes people's financial accounts to a new kind of abuse from hackers and

government.

- III. Like any other network technology, there is a high chance that a hacker is working on ways to exploit the system.
- IV. Once you agree to give out your biometric signatures, you cannot get them back. Many companies are notorious for giving out private information to other firms and governments.
- V. It is not clear how the theoretical database that stores all of this info would work, nor how access to it would be granted. Databases can be compromised, and this one would be the mother lode for cyber-criminals.

Conclusion:

The cashless transaction is soon becoming the most preferred option and there are a number of benefits of going cashless. The digital or electronic transaction of the capital by using net banking, credit cards etc. is called cashless transfer. People can easily pay their bills online, shop and schedule transactions and manage all the finances using their laptops or smartphones. Going cashless not only eases one's life but also helps authenticate and formalize the transactions that are done. This helps to curb corruption and the flow of black money which results in an increase of economic growth. The expenditure incurred in printing and transportation of currency notes is reduced. In a nation like India, cashless transactions are not widespread and this is due to the technology gap and the lack of proper education. Though these are the matters of concern, the government or the financial institutes need to address them to create a strong cashless economy.

The Government also needs to take the necessary steps and make some policy consideration when they are preparing for a cashless economy. The payment systems have to be protected from the cyber-attacks which are

the major threat for cashless transactions. Also, the government should be able to serve the underbanked as well. Everyone from the society should have access to an electronic system that they can use for such transactions.

As a conclusion, it can be said that going cashless provides a lot more benefits that just convenience to people, business and the government in particular.

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