

Cashless Economy: Challenges and Opportunities Ahead

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Abstract:

India is an ardent effort to move towards a cashless transaction economy by minimizing the use of physical cash. The leading advantage of building a cashless economy is elimination of black money. Digitalization of transactions is the best way to move towards cashless economy. Such a cashless economy is realizable by promoting electronic money instruments, developing financial infrastructure and spreading digital transaction habit among people. The recent move of demonetization has rattled the dusty cages of cash based economy and forced the people to rethink the medium of transactions and trade. The demonetization drive was initially termed as a tool to tackle the problem of black money and fake currency, but since then, the narrative has clearly shifted base. Paper is focused on identifying the different types of cashless mode and various opportunities available in the market.

Keywords - Cashless Economy, Digitalization, Demonetization.

1. Introduction

The RBI and the Government are making several efforts to reduce the use of cash in the economy by promoting the digital/payment devices including prepaid instruments and cards. RBI's effort to encourage this new variety of payment and settlement facilities aims to achieve the goal of a 'less cash' society. Here, the term less cash society and cashless transaction economy indicate the same thing of reducing cash transactions and settlement rather doing transactions digitally.

Cashless transaction economy doesn't mean shortage of cash rather it indicates a culture of people settling transactions digitally. In a modern economy, money moves electronically. Hence the spread of digital payment culture along with the expansion of infrastructure facilities is needed to achieve the goal.

There are several reasons why the government and the RBI bring up measures to promote cashless transaction economy. Besides convenience, digital transaction gives more scope for recording of transactions and in this way it is a first step against the spread of

unaccounted money or black money. Secondly, the problem of counterfeit notes can also be avoided when payment is settled digitally.

Objectives

1. To study Types of Cashless Modes and Payments.
2. To study challenges for India in going cashless.
3. To study Opportunities ahead for cashless economy.

Research Methodology

Paper is descriptive in nature to get insight into the subject with available sources of information. The data used in this paper it is purely based on authentic secondary sources according to the need of this study. Secondary data is collected primarily from referred journals, articles, online database, websites & newspaper etc.

Types of Cashless Modes and Payments:

Mobile wallet:

It is basically a virtual wallet available on your mobile phone. You can store cash in your mobile to make online or offline payments. Various service providers offer these wallets via

mobile apps, which is to be downloaded on the phone. You can transfer the money into these wallets online using credit/debit card or Net banking.

Plastic money:

It includes credit, debit and prepaid cards. The latter can be issued by banks or non-banks and it can be physical or virtual. These can be bought and recharged online via Net banking and can be used to make online or point-of-sale (PoS) purchases, even given as gift cards. Cards are used for three primary purposes – for withdrawing money from ATMs, making online payments and swiping for purchases or payments at PoS terminals at merchant outlets like shops, restaurants, fuel pumps etc.

Net banking:

It does not involve any wallet and is simply a method of online transfer of funds from one bank account to another bank account, credit card, or a third party. You can do it through a computer or mobile phone. Log in to your bank account on the internet and transfer money via national electronic funds transfer (NEFT), real-time gross settlement (RTGS) or immediate payment service (IMPS), all of which come at a nominal transaction cost.

UPI Apps

UPI is a mobile payment system which allows you to do various financial transactions on your Smartphone. UPI allows you to send or receive money using virtual payment address without entering bank information. Merchants can enroll with banks to accept payments using UPI. Like in the case of a PoS machine, the merchant would require a current account with a bank to accept UPI payments.

Gift Card

The next cashless payment method is a gift card. Gift Card is a readymade card and can be purchased from a merchant or from the bank. The gift card is loaded with a fix cash amount you can purchase any item from the specific

vendor by using a gift card.

Aadhaar Enabled Payment System

Aadhaar Enabled Payment System (AEPS) is one of the best cashless payment methods. AEPS is like Micro ATM it uses Smartphone and a finger-print scanner for the transaction. In order to use this facility, it is mandatory to link your Aadhaar card to your bank account. You can use AEPS in order to perform transaction like Aadhaar to Aadhaar fund transfer, Cash withdrawal, Cash deposit etc.

Unstructured Supplementary Service Data

You can use USSD cashless option if you don't have a smartphone or internet connection. Unstructured Supplementary Service Data is mobile banking service. From any mobile phone, you can dial *99# and use this service. You can do all these things which are available to a person with smartphone and internet connection. Almost all banks including SBI, ICICI, BOB, Axis Bank and PNB supports USSD payment option.

Challenges

In a country of 1.3 billion people, not all is perfect and not all is rosy. Going cashless must be an exponential curve, slow initial buildup then fast paced in later stages, not a digital step signal. That could be counterintuitive to the whole process.

Here is a list of challenges –

➤ **Inadequate infrastructure –**

First and foremost is inadequate acceptance infrastructure in terms of ATMs as well as point of sale (POS) terminals. For a vast country like India, having only 2.3 lakh ATMs and 14 lakh POS terminals is too low. The metros have a large concentration of ATMs, but the number declines in the suburban and rural areas.

➤ **Currency dominated economy-**

High level of cash circulation in India. Cash in circulation amounts to around 13% of India's GDP.

➤ **Transactions are mainly in cash-**

Nearly 95% of transactions take place in cash. Large size of informal/unorganized sector entities and workers prefer cash based transactions. They don't have required digital and fintech literacy.

➤ **High Merchant Discount Rate-**

These are the percentage deducted from each purchase a merchant makes by the card issuing authority or bank. These are volume dependent and are more economical if the merchant is able to sell a large amount of products, thereby beneficial for big merchants. For smaller merchants, it does not provide enough incentive to make the shift from cash.

➤ **Skepticism in Merchants-**

Small time merchants as well as users have high amount of suspicion over plastic money and they need to be educated over the potential benefits of using it. One cannot expect an overnight change in the perception of a majority of Indians over the use of plastic money. Government needs to come out with awareness and incentive schemes to promote digital economy

➤ ATM use is mainly for cash withdrawals and not for settling online transactions: There are large numbers of ATM cards including around 21 crore Rupaya cards. But nearly 92% of ATM cards are used for cash withdrawals. Only low level of digital payment using ATM cards. Multiple holding of cards in urban and semi-urban areas show low rural penetration.

Opportunities ahead:-

- As more people start using RuPay debit cards and Aadhaar for digital payments, it will facilitate a less cash economy.
- With increasing mobile banking services, growth in e-commerce and use of mobile payment applications, the use

of cash will decrease.

- The will to have a cashless economy will promote financial inclusion of the people. It will compel the government to connect all the households with a bank and plastic economy.
- A derivative advantage of transparent transactions is collection of tax will increase. Thus generating higher revenue for the government, this in turn will be converted into public welfare policies and schemes.
- The JAM infrastructure is spreading to reach each remote corner of the country as well as to every citizen. Almost 24 JDY Accounts, 124 Aadhar identity cards and nearly 90 crore mobile phones. Similarly, 33 million internet users are in India. This means that the JAM infrastructure can be used to promote cashless transactions.
- A large number of government transfers (DBT) are made through JAM mode. This will help people to get digital transaction awareness.

Conclusion

Needless to say, cashless transactions or electronic transactions always leave a digital proof beneficial for both the taxpayer (consumer) and the tax collector (government). Cashless transaction is a boon in terms of processing costs and waiting time. If implemented properly, it will increase the consumption and production rates, thereby improving the economy. Now it is a way to promote cashless transactions among citizens, which is really a good idea for the country. But the question is whether India is ready for it or how feasible it would be for the government to turn India into a cashless economy by 2020.

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