

# Cashless Economy: Problems and Prospects

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**Abstract-** India is moving towards a cashless economy with increased use of credit/debit cards, digital wallets, e-payments and digital transfers. The vision of digital India has further given boost to the concept. Virtual shopping, e-cash, e-commerce, electronic fund transfer, etc. is the new vocabulary for India. Although it is believed that cashless economy is need of the day but the concern is that is India with such diversified economic activities and such prevalent economic inequalities ready for such a transition? This paper investigates the feasibility of cashless means of business transactions in our society and problems and challenges associated with it. It is found that cashless economy would facilitate transparent, effective and speedy transactions but there are many practical problems in its nationwide usage and implementation, especially the security threats pose a major challenge.

**Keywords:** Cashless Economy, Digital/Electronic Payments

## I. INTRODUCTION

Technology has changed the modus operandi of business, moving towards electronic payments. Prior to the cashless era, in India only 5% of payments happened electronically. The number of currency notes in circulation has been found far higher than other large economies. A report by Boston Consulting Group (BCG) and Google India revealed that in 2016 around 75% of transactions in India were cash based while in developed nations such as US and Japan, it was around 20-25%. According to a Mastercard study, 80% of U.S. consumer transactions are electronic while in Sweden only 3% of transactions are made in currency. With advances in technology a number of new payment solutions has emerged, including premium SMS payments, M-PESA, Pay Pal, Google wallet, Bitcoin, Flatter etc. RBI has made many provisions to promote digital settlement of transactions. Most important of them being the launch of a regulatory set up for digital payments. RBI has recently unveiled a document-“payments and settlement systems in India: Vision 2018”-setting out a plan to encourage electronic payments. Though the concept of cashless transactions is in its infancy in India, its impact on economic growth is yet to be seen.

## II. LITERATURE REVIEW

The implementation of e-commerce based on ecash as the main engine driving global economic activity will determine the future shape of our society, Bonugli (2006). Many researches have been carried out to find relationship between electronic payments and economic growth of the country. Newstead (2012) found a link between cashless payments and economic growth, the study revealed that cashless payment volumes are growing twice as fast in developing countries as they are across the world.

Similarly, world Payments Reports (2012) explored the state and evolution of cashless economies and found that non cash payments make it easier and quicker for people and business to buy goods and services, pumping money in the system faster. Hasan, Renzis and Schmiedel (2012) explored fundamental relationship between electronic retail payment and overall economic growth and found that electronic payments stimulate overall economic growth, consumption and trade. Moody’s analytics (2013) studied the impact of card usage on GDP of 51 countries, found that electronic card usage added USD 1.1 trillion in real dollars to private consumption and GDP from 2003 to 2008.

## III. PROSPECTS AND BENEFITS OF CASHLESS ECONOMY

The *ease of conducting financial transactions* is the biggest motivator to go digital. There will be no need to carry cash, plastic cards or even queue up for ATM cash withdrawals. It would especially useful in case of emergencies, like in hospitals. Cashless economy would reduce chances of *tax avoidance, curb generation of black money*, would reduce *real estate prices* because most of black money is invested in real estate. Being cashless would also *save the cost of currency publication*. In 2015 RBI spent Rs.27 billion in currency publications. There is also *lower risk* if stolen, it is easy to block a credit card or mobile wallet remotely, it is very difficult to get back the stolen cash. In future the cards may evolve to use biometric IDs (finger prints, eye scan etc.) which would make copy of plastic money extremely difficult, making it a safe option.

The JAM infrastructure (Jan dhan yojna, aadhar cards and mobile banking) can act as pillar in implementation of cashless economy. A large number of government transactions are through JAM mode. The growth in volume and value of prepaid payment instruments issued by banks and authorized non bank organizations has also been significant. NPCI promoted Aadhar enabled Payment system and Unified Payment interface (UPI) is expected to give a big boost to cashless transactions. RTGS and NEFT volumes increased almost three folds between 2013 1st 2016, reflecting greater acceptance of technology by people nationwide. SBI is also going to establish 10000 point of sale (PoS) terminals across India which would further give a boost to digital payments. A Point of sale terminal ia a location where the transaction occurs, more specifically it refers to the hardware and software required to process smart cards, print receipt and maintain an electronic cash register,

To give a momentum to cashless transactions government has given many discounts like waiver of service tax of 15% on digital transactions upto 2000, 0.75% discount on digital purchase of fuel, 5% discount on digital payments for rail services, etc. Many mobile wallet companies like Paytm give cashbacks offers and discounts. Plastic card companies give reward points and loyalty benefits on repeated usage which can increase savings and improve cash flow marginality.

#### IV. CHALLENGES OF CASHLESS ECONOMY

It is an undeniable fact that nothing can compete the flexibility of cash and coins. Cash is the basic necessity like air and water required in every walk of life. India is a currency dominated economy, in India cash circulation amounts to nearly 13% of GDP. Nearly 95% of transactions take place in cash. There is large unorganized sector which prefers cash payments. Although there are large number of ATM cards, but nearly 92% of ATM cards are used for cash withdrawals. Only low level of digital payments are done through ATM cards. There is limited availability of point of sale terminals and poor transaction culture in POS. Also, there is poor internet connectivity and lack of power in rural areas. Lack of literacy is another challenge in adoption of cashless economy.

There are a large number of *risks* associated with digital payments which are far more severe than maintaining cash. Recently lakhs of debit card holders data was hacked which exposed the failure of financial institutions to protect the electronic currency. According to the digital security company Gemalto, more than 1 billion records were compromised in 2014. Also, there is a "*Risk of Identity theft*" and very poor redressal mechanism in our country, for example, if aadhar ID is stolen, there is no immediate mechanism to recover it. People have no easy recourse if they lose their money online.

Going cashless can also influence people's '*Propensity to save*'; in fact studies have shown that plastic money induces people to overspend. Paying with cards does not register in brain as paying in cash does. On the contrary, it is difficult to get people part with their cash. Government has been promoting people to save, but cashless economy would further aggravate the '*Demonstration effect*'.

Another viewpoint that withholds the cashless era is that it is a huge threat to our freedom. It would lead to '*encongruarity*' a shorthand for '*economic singularity*' where technology would govern not only consumer behavior but human nature itself. Debit and Credit card companies have full access to information of card holder, they use this information to govern their buyer behavior. Technological advances have led to creation of algorithms that can instantaneously review financial transactions; determine nature and location of transactions. Government would have access to all types of confidential information.

Another and in fact the biggest *challenge is for low income group*, the daily wage earners, the hawkers and peddlers; and the BPL families, who may have accounts under JDY scheme, but the accounts are empty. They survive on cash, and digital transaction is a distant dream.

#### V. CONCLUSION

Electronic cash is a system which allows individuals to purchase goods or services without the exchange of anything tangible. Greater usage of digital payments will save a lot for Indian economy as it will help in bringing down the cost of cash. It would lead to transparency, curb corruption and lead to convenience. Yet, Cash is the king, supporting the large informal, unorganized economy; Livelihoods of majority of poor population also runs in cash. Despite the benefits, a cashless society would certainly give governments and business firms unprecedented access to information and power over citizens. The main disadvantage of a cashless society consists of privacy issues and hacking of accounts. Prevailing poverty; backwardness and illiteracy; a large unorganized sector cannot switch to cashless economy so easily. The road to cashless economy is not so simple as it seems, implementation has many bottlenecks, and dangers of cashlessness would be visible in a few years from now.

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