



CASHLESS ECONOMY : PROSPECTS AND CHALLENGES

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ABSTRACT

In many developing countries like India, cash is the main mode of payment. This makes the country to be heavily cash based economy . However, the cost of cash to the indian financial system is high and increases the corruption and black money. It is in this regard that the indian government introduced the cashless policy with the objective of promoting the use of electronic payment channels instead of cash. This study seeks to point out the prospects and challenges of such policy in a developing economy like india .The study presented useful recommendations for policy makers.In conclusion, the study suggeses that the move towards a cashless india brings with it numerous benefits but there is still the need to creat more awareness to entice the numerous unbanked indian into the banking system.

Keywords : Cashless, electronic payment systems, internet banking,mobile banking,debit/credit cards.

Introduction

A cashless economy is one where cash flow is minimal or non-existent. In a cashless economy, electronic channels like debit cards,credit cards,electronic merchants,payments such as IMPS are mode of transactions. A cashless India will not only to curb unaccounted wealth, but also to reduce instances of tax avoidance. Direct wiring of money to the user will give greater efficiency and transparency to trhe system. It will also tackle, to some extent, the

fear of counterfeit currency. Small SMEs and digital india will evolve with an improvement in credit access and financial inclusion. Cashless has been legitimised in the minds of the electorate by the rise of the trendy industry of fintech an industry that I am normally proud to be associated with. Like all new technological movements the intention is to improve systems, economies and the standard of living, but at the same time they can be misused, creating suspicion and undesirable consequences. The cashless society is unlikely to become an official thing i.e cash is unlikely to be suddenly outlawed overnight. More likely, is that cash will be made so convenient that people will first live with less cash. But slowly but surely we may find ourselves cashless.

Electronic payment systems

The introduction of electronic banking, online transactions and mobile banking in Nigeria has paved way for a new era of development where the use and demand for physical cash is gradually declining. These recent evolution of technology in the Nigerian financial institutions poses interesting questions for economist, financial institutions, business analysts and the government regarding the current for economical status, logistics, and availability of instruments to guarantee economic growth and stability, efficiency and effectiveness of the cashless policy. Since the inception of humanity, various payment methods have been used to purchase goods and services starting with the trade by barter. Trade by barter method of transaction has been the foundation for the introduction of money and coins to solve the problem of double coincidence of wants and divisibility faced by trade by barter. The use of money/coins was introduced after the use of trade by barter, but the use of money as an exchange medium has solved various challenges associated with trade by barter, but the use of money as an exchange medium has challenges and disadvantages and can still be replaced with a better payment system the cashless policy/banking.

Mobile banking, debit/credit cards

The Prime Minister's move to incentivise digital payments will offer a support to our ongoing efforts in helping the country leap growth cash generation to digital payment solutions, added Deepak Abbot, the senior vice president of Paytm. This will not only help millions of Indians overcome the hassles of dealing in cash but also act as a significant step towards propelling India to emerge as truly cashless economy. The current business model of card payment system needs to evolve for those grappling with cash scarcity due to the recent demonitisation move, debit and credit cards have come in handy. The number of banks

providing card payment option has increased from barely 60 in 2011 to more than 700 today. The card base both debit and credit cards combined has also crossed 750 million.

Objective of the study

1. To analyse the role of cash
2. To elaborate schemes and programmes initiated by central governments regarding cashless economy
3. To measure the impact of cashless in indian economy
4. To find the prospects of cashless economy

Research methodology

1. Primary data(personal interview to the general people)
2. Secondary dat(internet, magazines,etc)

Prospects of cashless economy like india

Demonitisation scheme was a unilateral initiative that was planned in secret – in a back room of Prime Minister modi's home, in fact by a small group of insiders tied-in with the upper echelons of india's government. The strategy was to instantly nullify all 500 and 1000 rupees banknotes, the most comon currency demonitisations in the country, and then eventually replace them with newly designed, more secured 500 and 2000 rupees notes.This endeavor instantly became policy when the Prime Minister announced it via a surprise television address at 10.15 PM on November 8.One of Modi's main brands is that of a corruption fighter and his demonitisation initiative was rushed into effect in an attempt to catch the black market off guard which could potentially lead to a big payday for the central bank if large amounts of illicit cash was not redeemed.

By temporary turning off the engines which drove the cash economy , india hoped that more people could be brought into the fold by using trackable and taxable digital financing vehicles, like debit cards and e-wallets . India is currently in the middle of an all out movement to modernize the way things are paid for.New bank accounts are being opened at a heightened rate,e-payment services are seeing rapid growth,cash on delivery in e-commerce has crashed and digitally focussed sectors like the online grocery business have started booming. After the news of demonitisation, the online payment services went advertising overdrive, bombaring the media with ads to move on to online plateforms. But wealthier urbanites or younger generation used most of the services. India being an agrarian economy

we have to take them into consideration too. A cashless India will not only curb unaccounted wealth, but also to reduce instances of tax avoidance. Direct wiring of money to the user will give greater efficiency and transparency to the system. It will also tackle to some extent the fear of counterfeit currency. Small SMEs and digital India will evolve with an improvement in credit access and financial inclusion. Demonitisation has been a shocker for the Indian economy. Whether it succeeds in helping the transition to a cashless economy, or drags the economy down enough, is something only time will tell.

Benefits of cashless economy

1. **Financial inclusion:** 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 money.

2. **Transparency in transactions:** Needless to say, electronic transactions or plastic money always leaves a digital proof beneficial for both the taxpayer and the tax collector.

3. **Higher revenue:** A derivative advantage of transparent transactions is collection of tax will increase. Thus generating higher revenue for the government which in turn will be converted into public welfare policies and schemes.

4. **Reduced maintenance costs:** The logistics and supply chain of cash is costing the exchequer a fortune. The amount of money required in printing cash, its storage, transportation, distribution and detecting counterfeit currency is huge.

5. **Lower transaction costs:** Digital transactions 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.

6. **Crime prevention:** One of the many arguments for going cashless is that the removal of cash from society will help to prevent criminal activity and money laundering.

7. **Corruption prevention:** It will help to prevent the corruption.

Challenges ahead

However, in a country of 1.3 billion people, not all is perfect and not all is rozy. Going cashless must be an exponential curve, slow initial build up then fast paced in later stages, not a digital step signal. That could be counter intuitive to the whole process. India is a large

country that needs a change that is systemic and systematic. Here are some challenges of cashless in India.

1. **High cash dependency:** India has a high cash penetration in almost all of its transactions that happens as B2C transactions. Total cash flow in the market accounts for 12.04% of the GDP, which is among the highest in developing countries. This goes to show our dependence on cash is acute and it requires time to tackle it.
2. **Lack of digital infrastructure:** The first and foremost requirement of a digital economy is the penetration of internet and smartphone. Although a billion mobile subscribers, only 30% subscribers use smartphones. With 370 million mobile internet users, over 70% of them are in cities while 70% of Indian population lives in villages.
3. **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.
4. **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.
5. **Literacy of Lack of digital:** People in rural still do not know what actually smartphones mean. For them mobile is still a mode of communication only.
6. **Lack of internet facility:** Without it a country can not think of becoming digital. There are many rural and urban areas where you might get difficulty in having access to 2G network, let alone 3G, 4G.
7. **Lack of trust:** Due to security risks in digital transaction. Many people believe that digital transaction is not secure and recent hacking incident of ATMs further solidify their fear. Government should bring stringent provision for ensuring digital transaction security.
8. **Lack of swipe machines:** Many street vendors, shopkeepers do not know how to use swipe machines.

Results

In india 1 out of 25 people have a debit card and 1 out of 75 approx has a credit card as they were presented in Loksabhaby a MP.Majority of population including youngsters still believe in cash transactions .Many still fear that the cashless transactions ,it is true that CYBER SECURITY is also an issue. One more reason is that many of the smartphone holders do not even have data connections in thier phone excluding the youth.

Conclusion

The use of cash for frequent transactions apart from the problems enumerated in this paper,it is risky, costly and inefficient for consumers. The need before to migrate from the use of paper to cashless or electronic payment instuments can not be overemphasised. Cashless society as a society where no one uses cash, all purchases being made by credit cards,cheques or direct transfers from one account to another.This study has investigated the challenges of implementing electronic cashless policy in india. Despite the numerous benefits that this policy brings to the nation, banks and individuals, it also has its own challenges.The challenges as discussed in this study can be catogorised as follow

Security,infrastrcture, legal and regulatory issues as well as socio cultural issues . Payment system in india during the past few years have undergone significant progress , but some transactions are still cash based. Nevertheless , India has the basic infrastructure to implement the policy. There is therefore the need to create more awareness to entice the unbanked people into the banking system.Larger percentage of the Indian population is unbanked and going cashless will automatically get more people into the banking system.Most Indians are not aware of the benefits of electronic payments and are therefore slow to adopt it.The banks must also be educated to promote e-payments training programs for senior management of the banks and all other cadre.It is also further recommended that strategic managements of the economy be the subject of focus first especially the unbanked segment. In that way the vision of reducing the unbanked will be done gradually and systematically.

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