

## **TRANSACTION IN CASHLESS ECONOMY: ISSUES AND CHALLENGES**

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### **Abstract**

On November 8, 2016 India has seen a few historic announcements from the Prime Minister office in relation to cancelling the high denomination of Rs. 500 and Rs 1000 notes with an objective to root out black money, track payment to terrorist organization and other anti-national activities, curb tax evasion, corruption and encourage cashless transactions. Prime Minister Mr. Narendra Modi lunched the programme “Digital India” with a vision to transform India into a digitally empowered nation and creating a cashless, paperless economy.

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### **Key words:**

Cashless;  
Transaction;  
Demonstration;  
Digital;  
Economy.

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## **1. Introduction**

India is an enthusiastic effort to move towards a cashless transaction economy by minimizing the use of corporal cash. The leading benefit of building a cashless economy is removal of black money. Digitalization of dealings is the best way to move towards cashless economy. Such a cashless economy is achievable by encouraging electronic money tools, developing financial infrastructure and distribution digital deal habits among people. India traditionally cash founded economy recently broadcast the biggest and most determined move to crack down black money and move towards digitalization and cashless economy. While cards expenses have resisted to scale up due to numerous reasons can mobile based payment technologies such as mobile wallet cover the future for cashless economy in India? India remains to be driven by the use of cash less than 5% of all payments happen automatically however the finance minister, in 2016 budget speech, talked about the idea of restriction the flow of black money. Even the RBI has also recently revealed a document “Payments and Settlement Schemes in India: Vision 2018” Setting out a plan to inspire electronic payments and to permit India to move to a cashless society or economy in the medium and long term.

Today, credit cards and online payment services are becoming increasingly popular in urban India, paper currency notes are still an essential part of daily life. One saying is revenue is vanity, cash flow is sanity but cash is king. Cash may be defined as any legal medium of exchange that is immediately negotiable and free of restrictions.

## **2. Objectives of study**

1. To study the concept of cashless economy.
2. To study the modes of cashless transaction.
3. To study the positive and negative impact of cashless economy.
4. Different modes of cashless transaction in India.
5. TO suggest the future prospects of cashless India.

## **3. Methodology**

This paper is based on secondary data. The data collected from internet.

#### **4. Need of Study**

Prime Minister Mr. Narendra Modi launched the programme “Digital India” with a vision to transform India into a digitally empowered nation and creating a cashless, paperless economy. On November 8, 2016 India has seen a few historic announcements from the Prime Minister office in relation to cancelling the high denomination of Rs. 500 and Rs 1000 notes with an objective to root out black money, track payment to terrorist organization and other anti-national activities, curb tax evasion, corruption and encourage cashless transactions.

##### **I. Concept of Cashless Economy**

Is an economy where transaction can be done without necessarily carrying physical cash as a means of exchange of transaction but rather with the use of credit or debit card or other electronic media of payment for goods and services? Cashless economy is a situation in which the flow of cash within an economy is non-existent and all transactions are done through electronic media channels such as direct debit, credit and debit cards, and electronic clearing and payment systems such as Immediate Payment Service, National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS). It includes e-banking through computers also.

The introduction of cashless economy with the help of information technology is fully supported by the central government. This initiative has not only helped the fast transactions but at the same time it has saved lot of time and money in the country. If we see the global trend in the market it is clear that all over the world, people have started taking interest in cashless transactions. Academicians, politicians, administrators and above all the economists all over the world have strongly advocated about going cashless from the cash rich economy. Every elite citizen finds lots of benefits from this type of transaction rather carrying cash and move in the market.

In a cashless economy most of the transaction will be done by digital means like e-banking, debit and credit cards, POS machines, digital wallets etc. In simpler words no liquid money or paper currency will be used by the people in a given country. In a cashless economy the third party will be in possession of your money. He will allow you to transact that money whenever it is needed.

If it is not needed then the third party can use that money. Third party can be a government or any other public or private sector bank.

Cashless economies, as the name proposes, are those that run mostly on plastic or digital money and thus with negligible cash or money in paper form. This is conceivable in mostly those countries where there is better financial knowledge and citizens are conscious of the reimbursements of going cashless. A very important factor in the running of such an economy is the assurance that the people's money is safe in banks. Also, going cashless is much more appropriate. But, it is not just the easiest way to manage, but also brings about a lot more photograph in the financial system, which helps in restriction black money, depresses tax fudging and eventually leads to reduced funding for illegal trades and activities counting terrorism. Thus because of the growing effect of the benefits, many developing economies are accepting the cashless method and are going digital. This is a mammoth task and requires the infrastructure to be healthy and have a reach in the whole consumer dishonorable as well as the dealers and businessmen. It is up to the governing bodies of the countries to deliver a push to banks and telecom companies to recover the mobile and net banking ecosystem so as to provide a whole end to end explanation to customers as well as traders.

After cancellation of Rs.500 and Rs. 1000 currency notes, it has been noticed that with the increase in cash less transaction, there is decline in the withdrawal from the automated telling machines. It has not only reduced the burden on banks but also at the same time helped in the reduction of cost of maintenance of such machines. The world payment report says that the global non cash transactions have grown up to 8.9% and reached 387.3% billion in the global market.

## **II. Modes of cashless transaction**

For making cashless, there are various modes available in form of digital transactions which are being considerably implemented and which clearly indicate that cashless transactions are being actively used by people. These can be highlighted as under:

## 1. Point of Sale (POS)

Point of Sale generally means any location where a sale or transaction may take place such as shopping malls, a market or a city where something likely is going to be brought or sold. POS transaction is one of the easiest methods of cashless transaction through which you can control corruption. In this mechanism three simple steps have to be performed.



POS is a handheld device with the biometric reader along with a merchant bank account and internet connectivity. POS machines facilitate acceptance of payment from customers by swiping of their debit or credit or prepaid cards on POS terminals.

**Table 1. POS Terminals user in India (Bank wise)**

Sl.No	Bank name	Number of POS Terminals (In Lakh)
1	State Bank of India	3.29
2	HDFC	2.88
3	Axis Bank	2.7
4	ICICI	2.02

Source: Indian express

Number of POS terminals in India has increased from 5 lakh in year 2010 to 14.62 lakh in year 2016.

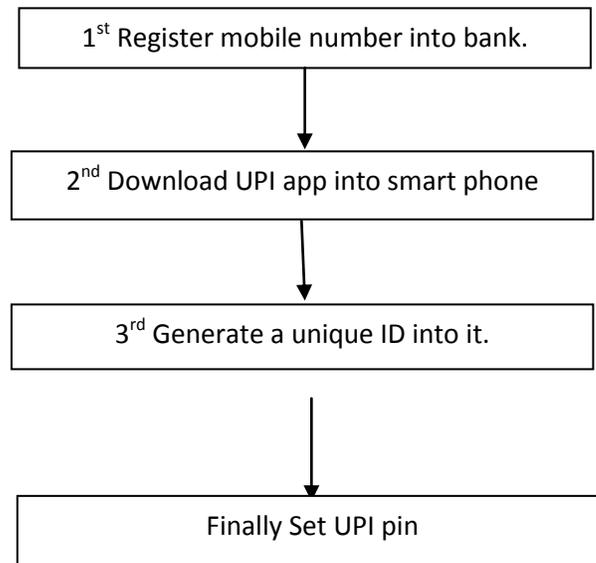
### 1. Plastic money:

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 POS purchase. They can be given as gift cards. These cards are used for three primary purposes – for withdrawing money form ATMs, making online payments and swiping for purchases or payments at PoS terminals at merchant outlets like shops, restaurants, fuel pumps etc.

### 2. Unified Payment Interface (UPI)

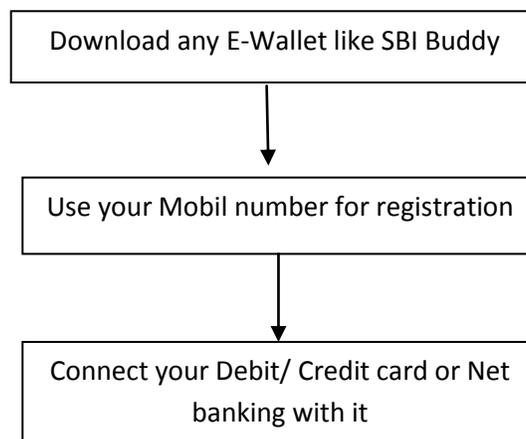
UPI is a kind of payment system through which we can transfer the money between two different parties. By using UPI a bank account can be initiated to transfer money from any time anywhere

with the help of few clicks. The best things of such types of transaction are that you do not need to share your credit details or wallet password. Every bank has personal Mobil App through it has become easier to transact. For this following steps need to be taken that are.



### 3. E-wallet

This term is used for a kind in of electronic device that allows anyone to make electronic transaction. To use this service you just need a computer or a smart phone only. Anyone can also link his bank account with it, with the help of driving license, health cards, and other ID proof. To perform online transaction through E-Wallet anybody has to follow the following steps.



### 4. Unrestricted supplementary Service Data: (USSD)

To get benefit from this transaction you do not need any computer or smart phone. A simple featured phone is enough. Hence it is also known as Quick codes. When someone sends message to the phone company, the company reverts back with a call or message to give details of what

the customer has asked. USSD also be used to refill the balance on user's SIM card to deliver OTP.

### **III. Positive Impact (Merits) Of Cashless Economy**

The cashless transfer 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 smart phones. Going cashless not only eases one's life but also helps authenticate and formalize the transaction that is 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 transaction is not widespread and this is due to the technology gap and the lack of proper education.

There are several benefits from cashless transactions for the citizen, Banks, Government, Industry etc. These benefits are follows below.

1. **Faster Transaction:** It has been proved that queuing at point of sale terminals and vending machines is greatly reduced; typically three times more people can be served using a cashless system than could have been if they were paying cash. This leaves employees more time to enjoy their break. Improving the speed of service may also offer the benefit of reducing staff levels at off peak time.
2. **Control over fake note:** It is impossible to make fake notes if the cashless transaction is used by every individual in the society because notes become useless. In this situation all the transactions will be done online.
3. **Control over black money:** Black money has become a hazard now a day's cashless transaction become very important to control the black money. Whenever we buy products, the distributor do not disclose their income to the government and hence escape from given the tax that money do not come under government surveillance hence consider black money. Any properties which are not under government surveillance and the tax have not been paid for that is the black money.

4. Cost of printing and distribution of currency: 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.
5. More Spending helps Improved Economic Growth: When a nation is taking a step towards a cashless economy, a boost in the economic growth can be expected. In countries like US higher card usage has contributed consumption of about US \$296 billion globally from the year 2011 to 2015 which is a 0.1% increase in the GDP. Shopping online gets easy as one can use a number of payment options; from credit and debit cards to net banking. One can observe more spontaneous buying while making cashless payments. Countries like Singapore have also witnessed a growth of 0.1% in GDP which accounts to about S \$ 400 million per annum. As people spend more, companies need extra staff to handle the demand for goods and services and this, in turn, creates more jobs for unemployed.
6. Prompt settlement of transactions: E- banking speeds up the settlement of transaction both locally and internationally, where the bank stands as paying bank to the customers for settlement of transaction or as collecting bank for collection of payment on transactions.
7. Better tax compliance is possible in cashless transaction and it helps to improve the revenues for government which in turn helps in improving the conditions of India's poor citizens
8. People need not spend time to go to branches for each and every time.
9. This aids the situation, as no trees are cut for production of paper money.
10. Adherence to labor laws can be achieved, as now labors will be paid in their bank accounts.

#### IV. **Negative Impact (Demerits) Of Cashless Economy**

As we know every good has its bad side also, surely aura of cashless transactions is spreading all over India converting India into Digital India, simultaneously the more and more use of internet is giving rise to various negative effects also. Following can be highlighted as the negative effects of going cashless economy:

1. Cyber security: In October 2016, the details of over 30 lakh debit cards were feared to have been exposed at ATMs. It was believed that the card and PIN details might have been leaked due to which customers were advised to change the PINs of their ATM-cum-debit cards. Stringent steps issuing new cards were also taken. Just a month later, the PM is motivating

people to move to a cashless society. Is the cyber security in place? While a card is cloned, it takes several months to recover someone's hard-earned money from the banks. How can people be assured that swiping cards at small shops and vendors will not be a risk to revealing our card details? Due to the increasing rate of online frauds, the risk of hacking will also increase as more people will be on the digital mode. More and more use of internet is giving boost to cyber crimes at an increasing pace as can be seen below:

**Table 2. Cyber Crimes**

Year	Registered cases	Persons Arrested
2011	1791	1184
2012	2876	1522
2013	4356	2098
2014	7201	4246
2015	8045	5102

Source: <http://factly.in>

2. Frauds through digital transactions : A report by ASSOCHAM-EY on study titled "Strategic nation measures to combat cyber crimes" highlights 46% complaints of credit/ debit cards frauds, 18% on account of hacking of email ids and 21% complaints on account of cheating through mobiles.
3. The Internet cost in India is still substantially high. There is no Wi-Fi at public places and if people do not get their monthly data packs recharged, there is no way they can be connected to make online payments. Internet connectivity is needed even for the e-wallets. In order to convince people to do cashless transactions, the cost of the internet should be lowered and free Wi-Fi should also be provided at public places.
4. Performing digital transaction using people's network can be more prone to traps on mobile devices and thereby giving opportunity to hackers to access account related information.
5. Major part of Indian population is not cultivated about banking systems, especially about the digital aspect of it. Hence they may reject making online transaction.
6. Heard of convenience charge? Of course, you would have if you do online transactions. These are additional charge that is levied by the vendors when they offer an online payment facility. But when the government is forcing us to go cashless, shouldn't this compulsory fee on online transactions be taken off?

## V. Challenges for Cashless Economy

More than half of the nation still does not know how to use a computer. People in rural areas still don't know about smart phone. As per the TRAI the total telephone subscriber are 1058.85 million still it is not in range of all the people.

Illiteracy is one of the major issue in the path of cashless transaction, as per UNESCO report India currently has the largest population of Illiterate adults in the world with 287 million. India illiterate population largest in the world says UNESCO report.

Lack of digital infrastructure and technology is another major obstacle for the quick adoption of alternate mode of payments.

Insufficient Infrastructure is also a major barricade for cashless transaction. For a large country like India, there are only 2.3 lakh ATMs and 14 lakh POS terminals are very low. Countries as Brazil, Australia, France and the UK have POS terminals three or four times that of India. Also the customer framework for card payment is sound.

Internet is English based platform. The details on the plastic card are also in English. The message received on mobile regarding transaction is also in English. Therefore it is required to use multiple languages regarding these processes or make everyone learn English.

Hacking is one of the issues for cashless transaction as per the economic time 3.2 million debit cards information were compromised of the major banks such as SBI, HDFC, YES Bank and AXIS.

The other challenge is that majority of the people in the society due to one or the other reason is not willing to join cashless banking solution. The major reason are, the seller are not willing to accept the cards and cheques as the sale though POS terminals and cheques transaction is accounted for, the other major aspect is that the sellers mostly asks for the transaction fee that makes things most costly. The only solution to their problem is that if large number of people joins the resolution of cashless payments by virtue of using debit or credit card. It will be easier for the banks or service provider to lower the transaction fore and adjust to the non normal phenomenon.

Swipe machines are also not subsidy free. It can only be afforded by rich shopkeepers. It can't be expected from an auto driver or a normal grocery seller to afford swipe card machines. Besides, many street vendors, shopkeepers don't know how to use swipe machines.

Most card and cash users have the perception that they will be charged more if they use cards. Moreover, non-users of credit cards are not aware of the benefits of credit cards.

## 5. Conclusion

Cashless economy has been undertaken in various countries with some being successful and some not very successful. The most successful effort so far has been in Sweden.

For cashless economy the government needs to take the necessary steps and should make some policies. The payment systems have to be protected from the cyber attacks which are the major threat for cashless transaction. 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.

Government should take measures to increase liquidity into the system so that people face less inconvenience. Government should also try to improve overall infrastructure so that more and more people can come into banking net and internet. Society has also to play its part. They have to understand the importance of cashless economy and appreciate measures taken by the government. As a conclusion, it can be said that going cashless provides a lot more benefits than just convenience to people, businesses and the government in particular.

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