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CASH ECONOMY TOWARDS CASHLESS ECONOMY : A REVOLUTIONARY TRANSFORMATION

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ABSTRACT

Within the last decade or so, our world has become rapidly more digitalized. For example, we now have internet purchases, and social interactions made via short message service (SMS), e-mails and social networks on the Internet. Two important factors that have contributed to this development are the use of mobile phones, and the use of the Internet. We are more 'on the go' than ever and get things done while we are on the go via our digital services turning the world to a mobile village. A part of the above mentioned digital purchases is digital payments. This lecture is to deliver information about pros and cons of cashless transactions system. A few papers have been reviewed for this study and internet is also used for getting more information.

Keywords: Cashless Transactions, POS, RTGS, NEFT etc.

The payments scene in India is undergoing a transformation: traditionally a cash-based economy, it has seen an increase in card-based and mobile transactions. In spite of advances made in the recent years by the Government and regulators to popularize cashless transactions, India continued to be a high cash usage economy. But on November 9th, 2016 Prime Minister Narendra Modi took entire India by surprise when he announced the demonetization of INR 500 and INR 1000 notes. There was a mad dash to withdraw smaller bills, or deposit bigger ones, at automatic teller machines around the nation before they shut down temporarily. This demonetization decision has been the biggest and most ambitious step ever to crack down on black money and fake currency and to move India towards a 'Cashless' economy.

Over the course of history, there have been different forms of payment systems. Originally, barter was quite common. Eventually, various forms of money were introduced. In the mid-twentieth century, charge cards debuted. Ever since then, experts have been predicting the demise of paper instruments and the emergence of a 'cashless society'. A cashless society describes an economic state whereby financial transactions are not conducted with money in the form of physical banknotes or coins, but rather through the transfer of digital information (usually an electronic representation of money) between the transacting parties. Cashless societies have existed, based on barter and other methods of exchange, and cashless transactions have also become possible using digital currencies such as bit coin. The development of goods and services has played a significant role in changing customers' payment habits. Commercial institutions, merchants and other service providers are promoting more efficient ways of making payments (Dahlberg 2006).

REVIEW OF LITERATURE

- **Times report (2014)** stated that one of the more successful electronic payment systems is PayPal, which was launched as far back as in 1999. Initially PayPal enabled people to perform transactions of small payments by means of emails and PDA's. Since then PayPal's system has been re-designed and extended several times, and was acquired by eBay in July 2002. In 2015 PayPal has more than 220 million accounts (PayPal's homepage) and is predicted to surpass its parent eBay in revenue in 2014.
- **Osazevbaru & Yomere (2015)** explored the benefits and challenges of the cashless policy vis-à-vis the cash based policy. Specifically, he is seeking whether other Point of Sales card acceptance services stakeholders attract a significant part of bank's income in cash-less economy. To address this, secondary data were collected and content analysis applied in data analysis. In result, they found that Development domestically has the introduction of mobile telephone in 2001 and improved access to personal computers and internet service facilities have also added to the growth of electronic banking in the Nigeria banking sector. However, whereas local banks most commonly practice real time

online internet banking, the integration of customers into the process is far from been realized.

- **Anyanwaokoro & Mike (2016)** Inspected in his research entitled "Cashless Economic Policy in Nigeria: A Performance Appraisal of the Banking Industry" This research will basically compare bank performance under the cash based period vis-a-vis the cashless period. It relied heavily on historic data, as data that was used in the analysis generated from published annual reports and accounts of the sampled banks between the period of 2009-2011(cash based period) and 2012-2014 (Cashless period) of Nigeria. And result of this study found that shift towards cashless policy will reduce the high operational cost incurred in a cash based economy, Cashless policy will enable Corporations benefit by way of faster access to capital, reduce revenue leakages and reduce cash handling cost. Cashless policy will help minimize the risks associated with the use of physical cash that do arise from burglaries and thefts as well as financial losses in fire outbreaks.

OBJECTIVES OF THE STUDY

- To know the concept of cashless society in India.
- To discuss pros and cons of Cashless Transactions System in India.

RESEARCH METHODOLOGY

This study is descriptive in nature and entirely based on secondary data. Research papers and internet is used to make this study complete.

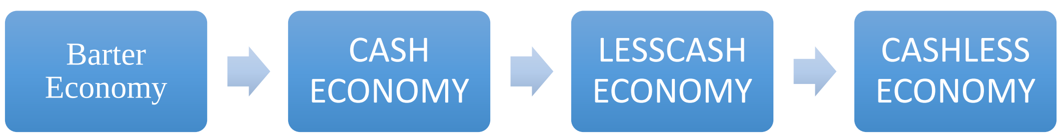
CONCEPT OF CASHLESS SOCIETY

A cashless society describes an economic state whereby financial transactions are not conducted with money in the form of physical banknotes or coins, but rather through the transfer of digital information (usually an electronic representation of money) between the transacting parties. Cashless societies have existed, based on barter and other methods of exchange, and cashless transactions have also become possible using digital currencies such as bit coin.

However this article discusses and focuses on the term "cashless society" in the sense of a move towards, and implications of, a society where cash is replaced by its digital equivalent in other words, legal tender (money) exists, is recorded, and is exchanged only in electronic digital form.

Cash-less banking may be defined as that banking system which aims at reducing, not removing the amount of physical cash (Currency notes and coins) circulating in the economy, whereas encouraging more electronic based transactions (payment for goods, services, transfers etc.). In other words, it is a combination of two e-banking and cash-based systems. In most developing countries, it represents a middle phase in the development of payment system as illustrated below;

Concept of Cashless Economy



1 Barter Economy

Barter is a system of exchange where goods or services are directly exchanged for other goods or services without using a medium of exchange, such as money (wikipedia, 2016).

2 Cash Economy

An economic system, or part of one, in which financial transactions are carried out in cash rather than via direct debit, standing order, bank transfer, or credit card(collin, 2016).

3 Less Cash Economy

An economy system, in which half of the financial transactions are carried out via Digital/Mobile mode and half of the transactions are carried out via cash (currency/coin/cheques).

4 Cashless Economy

A cashless economy is an economy where most of transaction is carried out via digital devices.

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Very few transactions were carried out via using cash. Cashless economy will help country to prevent corruption, black money and money laundering. Cashless transaction divided into two modes; physical mode and non-physical mode.

1. **Physical Mode:** It is further divided into following parts:
    a) **Debit Card**: A debit card (also known as a bank card or check card) is a plastic payment card that can be used instead of cash when making purchases. It is similar to a credit card, but unlike a credit card, the money comes directly from the user's bank account when performing a transaction.
    b) **Credit Card:** Credit Card – enables its holder to buy goods and services with a credit line given by credit card issuer. Funds are settled at a later date.
    c) **Cheques:** Cheque is an order to transfer funds from the payer's bank to the account of the payee. Cheques are generally valid for Three months after the date of issue.
    d) **POS (Point on Sale)/POP (Point on Purchase):** The point of sale (POS) or point of purchase (POP) is the time and place where a retail transaction is completed. At the point of sale, the merchant would calculate the amount owed by the customer and indicate the amount, and may prepare an invoice for the customer (which may be a cash register printout), and indicate the options for the customer to make payment.
    e) **Barter Trade:** This is a system of commercial exchange where goods and services are offered by one party to another interested party in return for other goods and services which are to be offered by the latter to the former.

2. **Non-Physical Mode:** It is further divided into following parts:
    a) **Mobile Banking:** Mobile Banking a service provided through the combined effort of a bank and a mobile service provider, to perform common banking transactions.
        - **SMS Banking:** It is a facility used by some banks or other financial institutions to send messages (also called notifications or alerts) to customers' mobile phones using SMS messaging.

b) **Online Banking:** Online Banking is fast and convenient way of performing banking transactions such as transferring funds from your savings to current account or to a third party account. Online Banking has three main types in India i.e. NEFT, RTGS and NECS. Online banking transaction is mostly used by Indian.

- **RTGS (Real Time Gross Settlement):** RTGS are specialist funds transfer systems where the transfer of money or securities takes place from one bank to another on a "real time" and on a "gross" basis. The RTGS system is primarily meant for large value transactions. The minimum amount to be remitted through RTGS is 2 lakh. There is no upper ceiling for RTGS transactions.
- **NEFT (National Electronic Funds Transfer):** NEFT is one of the most prominent electronic funds transfer system of India. It is started in November 2005, NEFT is a facility provided to bank customers to enable them to transfer funds easily and securely on a one-to-one basis. It is done via electronic messages.

c) **E-wallet:** An electronic wallet is a virtual or a cashless service used as a substitute for physical cash. Our aim is to present a new way of buying commodities without the application of physical transaction. The aim is to provide the ability to carry out secure transactions that are quick and efficient with the click of a button. The primary concern regarding such types of transaction methods is security.

ADVANTAGES OF CASHLESS TRANSACTIONS SYSTEMS

- **Cost effective to Banks**: With appropriate technology and instruments, the need to be physically present during any financial transaction can be dispensed with. This can reduce transaction costs as cashless transactions often reduce processing costs and waiting times. The process of calculating and tendering the exact change is often cumbersome and time consuming.

- **It will promote financial inclusion:** There are about 6.3 bank branches for every 100,000 people in India, less than 3 branches per 100 square kilometres. For rural India, the numbers are 3.5 branches per 100,000 people and less than 1 branch per 100 square kilometres. In particular, 45 per cent of the rural, 28 per cent of the urban and 38 per cent of all households in India, admit that access and availability are the main factors determining their choice of a particular bank. While it is necessary for financial inclusion that every household should have access to bank, mere physical access to a bank is, of course, not sufficient. An enabling system that promotes cashless transactions would, therefore, be the natural extension of the existing policies directed towards financial inclusion.(Mukhopadhyay, 2017).
- **Control of Black Money and check for Anti money laundry:** Even transactions can be done through e banking but same can be traced while it is very difficult to trace the transactions in cash. There is certain check also in depositing and withdrawing money through bank accounts. Hence, it will definitely control over black money and money laundering in the days to come.
- **Up-gradation of technology:** No doubt the focus should shift to encourage cashless transactions with the framework of using different technology available in the present market. Banking are increasing their ATMs, POS machines, Banking Correspondence and E-Lobby which is ultimately upgrade the technology.
- **Financial Records:** Recording financial transactions has many advantages. First, it aids the Government to collect appropriate tax revenues; second, it can effectively detect, and help curtail, illegal transactions; third, it will give us a better estimate and understanding of the huge unorganized sector in India; and last, but not the least, it will help plug the 'leakages' in various Government programmed. This is perhaps the most direct way of battling issues in corruption and black money in India. Digital footprints have other major advantages. It can make public delivery systems much more efficient.
- **Budget Discipline:** The written record will help you keep tabs on your spending and this will result in better budgeting. "Various apps and tools will help people analyze their spending patterns and throw up good insights over a couple of years," says Jhaveri. Controlled spending could also result in higher investing. If the same amount of cash does not flow back into

circulation and people continue to use mobile wallets and cards, it is also likely to bring down the latte (Mital, 2016).

- **Less Time Consumed**: Definitely the level of customer service will go very high and this will help in minimizing customer complaint. Presently banking is required good number of staff to attend and redress the complaints at different stages (Ashok, 2013).

DISADVANTAGES OF CASHLESS TRANSACTIONS SYSTEM

- **Lack of Digital Knowledge:** The biggest disadvantage of the cashless economy is that not everybody has the knowledge of doing digital transactions and hence its reach is limited to urban and semi-urban centers only and therefore it is very difficult to implement cashless economy in the big country where many sections of the society in rural areas is illiterate and poor. Hence the lack of proper infrastructure and education among citizens is disadvantageous as far as the cashless economy is concerned.
- **Risk:** Another disadvantage of the cashless economy is that although it easy to do digital transactions but at the same time it is very risky as compared to cash related transactions. Hence people having half knowledge of digital payments are exposed to cyber fraud and losing their hard earned money to online scam and hacking of bank accounts and hence it is better to do cash transactions rather than doing digital transactions if one is not fully aware of the online medium of transactions.

- **Involvement of extra charges:** Another demerit of the cashless economy is that digital mode of payments like the credit card, wallet payments, internet banking involves some transactions fee which is not the case with cash transactions and hence any individual thinking of doing online transactions will take into account these transaction costs and will not favor online medium of transactions. Hence the presence of transaction cost is a hindrance to cashless economy finding acceptance among the people of the country.

CONCLUSION

In conclusion it can be said that in such a scenario, mobile as a platform has a unique set of capabilities that can overcome the challenges posed by the Indian payments landscape. Mobiles offer a low-cost means to create financial access and payments. Overall, this will help to curb corruption and the flow of black money which results in an increase of **economic** growth. The risk of theft will continue until people carry cash and by going **cashless** the same can be reduced.

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