



CASHLESS ECONOMY IN INDIA

Dr. Ambanna M. Bhavimani

Assistant Professor, Government First Grade College Farahatabad, Tq, & Dist. Kalaburagi -585308, Karnataka, India

ABSTRACT

A cashless economy or an e-payment system is a situation where there is little or very low cash flow in a given society, thus every other purchases and transactions will be made by electronic channels, examples of which are direct debit, electronic funds transfer, mobile payments, multi-functional ATMs, internet banking and a significant increase in point of sale (POS) penetration and usage. In other words, it simply refers to the widespread application of information technology in the financial system. Payments under this new system will range from a list of options such as cheques, wire transfers, debit and credit cards, online transactions, and mobile banking. The advantages of a cashless society are enormous; from regulating, controlling, and securing the financial system of any economy. In this context, the present paper makes an attempt to study the present scenario of cashless economy in India, to identify the challenges to cashless economy, to know the benefits of cashless policy and make recommendations to bank for cashless banking.

KEY WORDS: *Cashless Economy, point of sale (POS), Automated Teller Machine (ATM)*

INTRODUCTION

A cashless economy is an environment in which money is spent without being physically carried from one place to another. Electronic devices as means of information that reveal how much a person has deposited and has spent are needed. Information technology plays an important role in bringing about sustainable development in every nation. Without an optimal use of information technology, no country can attain a speedy social- economic growth and development. The future of all business particularly those in the services industry lies in information technology, in fact, information technology has been changing the ways companies and banks compete. Information technology is more than computers, it encompasses the data a business creates and uses as well as a wide spectrum of increasing convergent and linked technologies that process such data. Information technology thus relates to the application of technical processes in the communication of data. It is no doubt that information technology can help to reduce transaction costs for banks, which will translate to lower prices for services to customers. Information technology for banks takes different forms which include: computerization of customers' accounts and information storage and retrieval, deposit and withdrawal through Automated Teller Machine and networking to facilitate access to accounts from any branch of the bank. Other forms include bio-metrics used in finger- printing and identification which should dispense the use of passwords or personal identification by customers. The use of internet and websites to bundle a host of services that go beyond transactional financial services which is increasing among banks.

India continues to be driven by the use of cash; less than 5% of all payments happen electronically however the finance minister, in 2016 budget speech, talked about the idea of making India a cashless society, with the aim of curbing the flow of black money.

Even the RBI has also recently unveiled a document — "Payments and Settlement Systems in India: Vision 2018" — setting out a plan to encourage electronic payments and to enable India to move towards a cashless society or economy in the medium and long term.

Towards Cashless Society

The world has been dreaming of a cashless society ever since credit instruments were introduced in the 1950s. With the increase in smartphone penetration and 4G networks becoming a reality, the outlook for mobile payments in India is optimistic. While we have over 900 million mobile subscribers, less than 40% of our countrymen have bank accounts. One of the lowest ATM density in the world, low share of Debit/Credit cards in the total retail electronic payments, further contribute a strong business case.

Organizations are now also increasingly looking beyond the most basic forms of mobility like email. They are now investing in sales force automation, CRM, ERP, Business Intelligence as they now recognize mobility to be a significant enabler of revenue generation.

Due to major social and technological advancements, the banking landscape is undergoing massive change. Key drivers for this are generation Y consumers as well as early adopters of new technologies and systems, who are driving debate around a cashless society and more specifically mobile

payments. The market is seeing increased availability of sophisticated technologies that can enable cashless transactions; however the perceived disadvantages such as the need for high IT investment by various service providers, security concerns, lack of technological awareness and the traditional mindset of Indians who prefer to use physical money seem to outweigh the potential benefits.

Overall, there is currently a lot of innovation taking place in the following areas in India, which will encourage development of a cashless society and help the market move towards the idea of new payment methods such as m-payments:

A less known player, Uniphore, provides speech-based mobility solutions to illiterate mobile subscribers, where many do not have a bank account. The company has developed a speech biometrics technology to meet special needs of the uneducated segment and is currently serving 200,000 banking customers, of which 100,000 are illiterate farmers.

Meaning and Definition of Cashless Economy

A cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal.

A cashless society where no one uses cash, all purchases being made by credit cards, charge cards, cheques or direct transfer from one account to another.

OBJECTIVES OF THE STUDY

1. To study the present scenario of cashless economy in India.
2. To identify the challenges to cashless economy.
3. To know the benefits of cashless policy.
4. To make recommendations to bank for cashless banking.

CHALLENGES TO CASHLESS ECONOMY IN INDIA

1. Availability of internet connection and financial literacy.
2. Though bank accounts have been opened through Jan Dhan Yojana, most of them are lying unoperational. Unless people start operating bank accounts cashless economy is not possible.
3. There is also vested interest in not moving towards cashless economy.
4. India is dominated by small retailers. They don't have enough resources to invest in electronic payment infrastructure.
5. The perception of consumers also sometimes acts a barrier. The benefit of cashless transactions is not evident to even those who have credit cards. Cash, on the other hand, is perceived to be the fastest way of transacting for 82% of credit card users. It is universally believed that having cash helps you negotiate better.
6. Most card and cash users fear that they will be charged more if they use cards. Further, non-users of credit cards are not aware of the benefits of credit cards.
7. Indian banks are making it difficult for digital wallets issued by private sector companies to be used on the respective bank websites. It could be restrictions on using bank accounts to refill digital wallets or a lack of access to payment gateways. Regulators will have to take a tough stand against such rent-seeking behaviour by the banks.

BENEFITS OF CASHLESS POLICY

1. Faster transactions- through reduction in queue at the banking halls. It has been proven from time to time that queue at point of sale terminals has been reduced which leaves much time for employees to enjoy their break, there has been an improvement in the speed of rendering banking services
2. Improving Hygiene: it has eliminated bacterial spread through handling of notes and coins from one individual to another.
3. Increased Sales: it has been demonstrated that with the introduction of a cashless policy, there has been increase in sales by 20%. Vending and catering purchases are often dictated by the amount of loose balance we have in pockets. With the introduction of cashless policy, this is never a problem; the value on the card is available 24hours and 7days a week
4. Cash collection made simple: time spent on collecting, counting and sorting cash is eliminated. The cashless system offers a choice of top-up options including payroll reduction, credit and debit cards. Removing all the cash from your site removes the security issues relating to cash handling significantly and reduces the risk of vandalism and theft from your vending and catering points of sale. A payroll loader, where money is transferred from your salary to your smart card, or a credit card, where money can be loaded from Access, Visa or Master card directly to your smartcard offers you and your customers a truly cashless system.
5. Managing staff entitlements: free vends, corporate cash, royalty and hospitality are all entitlements which can be programmed in to the card, this can be refreshed daily, weekly or monthly while the card can be configured so that any unused allowance is accumulated depending on the client's request. In some instances, it may be necessary to charge different tariffs for visitors and staff.
6. Reduction in cash circulation: a cashless system prevents too much of cash in circulation thereby curbing armed robbery and cash related crime.

BENEFITS TO THE STAKEHOLDERS

Having considered the benefits of the cashless policy generally, the advantages of the policy to stakeholders cannot be overemphasized. A variety of benefits are expected to be derived by various stakeholders from an increased utilization of e-payment which includes:

1. For consumers; increased convenience, more service options, reduced risk of cash-related crimes, cheaper access to (out of branch) banking services and access to credit
2. For Corporations; faster access to capital, reduced revenue leakage, and reduced cash handling costs
3. For Banks; efficiency through electric payment processing, reduced cost of operations and increased banking penetration
4. Benefits to the economy; through the system, users can also pay utility bills, school fees, hotel booking, house rents, among other transactions, using a mobile phone device

5. For Government; increased tax collection, greater financial inclusion, increased economic development. The government will also benefit from the cashless policy in the area of adequate budgeting and taxation, improved regulatory services, improved administrative processes (automation), and reduced cost of currency administration and management

The cashless system which is cultured to the use of e-payment increases profitability through the following ways:

1. Convenience - removing administrative resources required by invoices, cheque and cash
2. Immediacy - credit cards enable instant purchases without delay
3. Improved cash flow - payment at the time of purchase reduces the pressure caused by 30days invoicing
4. Growth – opens additional payment channels via the phone, mail order, internet and increases customers' base. More customers means more revenue
5. Competitive advantages –match and beat the services of competitors and gain the edge

STEPS TAKEN BY RBI AND GOVERNMENT TO DISCOURAGE USE OF CASH

- Licensing of Payment banks
- Government is also promoting mobile wallets. Mobile wallet allows users to instantly send money, pay bills, recharge mobiles, book movie tickets, send physical and e-gifts both online and offline. Recently, the RBI had issued certain guidelines that allow the users to increase their limit to Rs 1,00,000 based on a certain KYC verification
- Promotion of e-commerce by liberalizing the FDI norms for this sector.
- Government has also launched UPI which will make Electronic transaction much simpler and faster.
- Government has also withdrawn surcharge, service charge on cards and digital payments

ESSENTIALS NEEDS FOR CASHLESS ECONOMY

- Open Bank accounts and ensure they are operationalized.
- Abolishment of government fees on credit card transactions; reduction of interchange fee on card transactions; increase in taxes on ATM withdrawals.
- Tax rebates for consumers and for merchants who adopt electronic payments.
- Making Electronic payment infrastructure completely safe and secure so that incidents of Cyber crimes could be minimized and people develop faith in electronic payment system.
- Create a culture of saving and faith in financial system among the rural poor.
- The Reserve Bank of India too will have to come to terms with a few issues, from figuring out what digital payments across borders means for its capital controls to how the new modes of payment affect key monetary variables such as the velocity of money.

- RBI will also have to shed some of its conservatism, part of which is because it has often seen itself as the protector of banking interests rather than overall financial development.
- The regulators also need to keep a sharp eye on any potential restrictive practices that banks may indulge in to maintain their current dominance over the lucrative payments business.

Though it will take time for moving towards a complete cashless economy, efforts should be made to convert urban areas as cashless areas. As 70% of India's GDP comes from urban areas if government can convert that into cashless it will be a huge gain. Therefore different trajectories need to be planned for migration to cashless for those having bank account and for those not having.

RECOMMENDATIONS TO BANK FOR CASHLESS ECONOMY

The following recommendations are proffered to sustained cashless banking economy in India:

1. Comprehensive awareness campaign to enlighten both existing and potential customers of its benefits
2. Adequate and well-functioning infrastructural facilities must be in place like ATM, POS machine and so on.
3. To ensure the beneficiary of cashless banking policy enjoys affordable charges and security.
4. It must be channel or targeting economic growth and development of the society
5. Fair competition should be maintained in order to prevent monopoly like behaviour by the licensed point of sales terminal machine manufacturers
6. Proper monetary and effective evaluation of cashless banking operations should be observed.

CONCLUSION

The cashless system is reaching its growth day by day , as soon as the market become globalised and the growth of banking sector more and more the people moves from cash to cashless system. The cashless system is not only requirement but also a need of today society. All the online market basically depends on cashless system. The cashless is not only safer than the cash transaction but is less time consuming and not a trouble of carrying and trouble of wear and tear like paper money. It also helps in record of the all the transaction done. So, it is without doubt said that future transaction system is cashless transaction system.

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