



Cash less economy: meaning, method & impact on economy

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Abstract

This research paper focus on impact and importance of cash less policy in India. According to Govt., Cash less policy will reduce cash related corruption and attract Investment in India. It is expected that if cash less system will made in the payment system, it will reduce the cost of banking services and curb banking corruption. Electronic banking will be made banking transaction to be easlier by bringing services closer to their customers, hence improving banking industry performance. But there are many hurdles in the way of electronic payments. Safety over digital payments channel is important for cash less economy and awareness is necessary to adopt the benefits of cash less economy. The aims of this paper is to create awareness about the method of cash less payment.

Keywords: cashless economy, corruption, black money, India, digital payments

Introduction

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, electronic clearing and payment systems such as Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS). 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. We are the fourth-largest user of cash in the world. The rate of cash to GDP is the highest, i.e. 12.42% in India. Cash in circulation to private consumption ratio in India is 20% and Card transactions account for 4% of the personal consumption expenditure. As most of people are illiterate, poor, engaged in small transactions and having less banking habits. For them cash is the most convenient and easy form of medium of exchange, free from hassles. A cash transaction is immediate and doesn't involve any intermediary. Cash provides individuals and families with liquidity. One needs not to worry about a computer system crashing, power going off, and losing transaction midway. Use of cash doesn't involve any extra cost as in the use of debit/credit cards. Even in the most cashless countries like France and the Netherlands, cash still accounts for 40% or more of all consumer transactions. Usually cashless economies have low corruptions and less black money. Almost every country is bracing towards cashless economy and many countries have made significant progress. It is just a world trend which India is trying to catch up.

Problem arise to applicable in cash less 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. India uses too much cash for

transactions. The number of currency notes in circulation is also far higher than in other large economies. In this context recent trend have been changed, while revolution in the information technology in India. The researcher tries bridge the gap between awareness about the smart phone makes use of it in rural India.

The main objectives of this paper

- To study the concept of cashless economy.
- To reduce the corruption which takes place mostly through the cash medium
- To reduce the burden of the cost of printing currency and also handling them.
- The transfer of money from one place to another is also gruesome.
- To suggest for make use cashless.

Method of cash less economy

Aadhaar enabled payment system (AEPS)

AEPS is a bank led model which allows online interoperable financial transaction at POS (Point of Sale / Micro ATM) through the Business Correspondent (BC)/Bank Mitra of any bank using the Aadhaar authentication.

How to get it

- Provide KYC (Know Your Customer) information to open a new account
- Aadhaar Number should be linked with bank a/c

Service Activation

- None
- 1-2 minutes post Aadhaar seeding

What is required for Transaction?

- Micro ATM
- Remember Aadhaar
- Give Bank name

- Present self (Aadhaar holder) with Bio-metrics (Finger and/or IRIS)
- Assisted mode

Transaction Cost

- NIL to customer
- Merchant or BC may get charged or paid based on bank's discretion

Disclaimer: The transaction costs are based on available information and may vary based on banks

Services Offered

- Balance Enquiry
- Cash Withdrawal
- Cash Deposit
- Aadhaar to Aadhaar funds transfer
- Payment Transactions (C2B, C2G Transactions)

Funds Transfer limit

- Banks define limit. No limit for RBI.

Disclaimer: The funds transfer limits are based on available information and may vary based on banks

Service Available from no. of operators

- 118 banks
- Interoperable

2. Mobile wallets

A mobile wallet is a way to carry cash in digital format. You can link your credit card or debit card information in mobile device to mobile wallet application or you can transfer money online to mobile wallet. Instead of using your physical plastic card to make purchases, you can pay with your smartphone, tablet, or smart watch. An individual's account is required to be linked to the digital wallet to load money in it. Most banks have their e-wallets and some private companies. e.g. Paytm, Freecharge, Mobikwik, Oxigen, m Rupee, Airtel Money, Jio Money, SBI Buddy, itZ Cash, Citrus Pay, Vodafone M-Pesa, Axis Bank Lime, ICICI Pockets, Speed Pay etc.

How to get it

- Provide KYC (Know Your Customer) information to open a new account
- Mobile no. should be linked with bank a/c
- Register for USSD/Mobile Banking
- Get MMID (Mobile Money Identifier)
- Get MPIN (Mobile PIN)

Service Activation

- None
- 1-2 minutes

What is required for Transaction?

- Remember MMID
- Remember MPIN
- Dial *99#
- Registered mobile number with any phone (feature or smart)

Transaction Cost

- NIL by system
- Rs. 0.50 charged to customer

Disclaimer: The transaction costs are based on available information and may vary based on banks.

Services Offered

- Balance enquiry
- Mini Statement
- Funds transfer
- MMID
- A/c no.
- Aadhaar
- Know MMID
- Change M-PIN
- Generate OTP

Funds Transfer limit

- Rs 5,000/day
- Rs 50,000/annum

Disclaimer: The funds transfer limits are based on available information and may vary based on banks.

Service Available from no. of operators:

- 51 banks
- Interoperable

3. Micro ATM'S

Micro ATM meant to be a device that is used by a million Business Correspondents (BC) to deliver basic banking services. The platform will enable Business Correspondents (who could be a local kirana shop owner and will act as 'micro ATM') to conduct instant transactions. The micro platform will enable function through low cost devices (micro ATMs) that will be connected to banks across the country. This would enable a person to instantly deposit or withdraw funds regardless of the bank associated with a particular BC. This device will be based on a mobile phone connection and would be made available at every BC. Customers would just have to get their identity authenticated and withdraw or put money into their bank accounts. This money will come from the cash drawer of the BC. Essentially, BCs will act as bank for the customers and all they need to do is verify the authenticity of customer using customers' UID. The basic transaction types, to be supported by micro ATM, are Deposit, Withdrawal, Fund transfer and Balance enquiry.

4. Internet banking

Internet banking, also known as online banking, e-banking or virtual banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website.

5. Banks Pre-Paid Cards

How to get it

- Provide full KYC (Know Your Customer) information to open new account

- Apply for Wallet/ Pre-paid Card
- Get a MPIN / PIN

Service Activation

- Load money (subject to regulatory limits) using branch, or internet banking
- Bank A/c
- All Cards
- 1-2 days for card
- 5-7 minutes for wallet

What is required for Transaction

- Smartphone or internet
- Use MPIN
- Self-service and/or Assisted mode

Transaction Cost

- On loading the pre-paid card, Customer may pay service charges for transaction or fixed fee, upfront + each transaction.
- Loading wallets is mostly free.
- Merchant is charged fee 0.50% to 2.50 %
- Cash out is charged to customer as fixed fee or 1% to 2.5% of value of transaction. Only from Cards

Disclaimer: The transaction costs are based on available information and may vary based on banks

Services Offered

- Balance Enquiry
- Passbook/ Transaction history
- Add money
- Bank A/c
- All Cards
- Accept Money
- Pay money
- Another wallet (mobile no.) with same provider
- Pay merchant
- Bar Code reader
- Cash-Out (Cash withdrawal)
- Touch and Pay
- Manage Profile
- Notifications

Funds Transfer limit

- For Users
- Rs 1,00,000/- for Users
- For Merchants
- Self-Declared - Rs 50,000/ month
- With KYC – Rs. 1,00,000/- month

Disclaimer: The funds transfer limits are based on available information and may vary based on banks.

Service Available from no. of operators:

- All leading Banks
- Non-operable
- Cash-out with limits only for VISA/ MasterCard linked wallets/ cards

6. Point Of Sale

A point of sale (POS) is the place where sales are made. On a macro level, a PoS may be a mall, a market or a city. On a micro level, retailers consider a POS to be the area where a customer completes a transaction, such as a checkout counter. It is also known as a point of purchase.

Physical POS

Necessary conditions for service initiation:

- Handheld Device with card and /or bio-metric reader
- Merchant Bank a/c
- Internet connectivity GPRS/ Landline

Service Activation

- Paper work with Bank for merchant bank a/c
- Deposit certain amount
- Collect device
- Configuration and training to operator

What is required for Transaction?

- Any Card
- Resident for bio-metric authentication (AEPS)
- Assisted Mode

Funds Transfer limit

- No limit for regulator
- Merchant's Bank and payee Bank may set limit based on its own discretion

Disclaimer: The transaction costs are based on available information and may vary based on banks

Service Available from no. of operators

- Source RBI – Aug'16
- 14.62 lakh
- Interoperable

Mobile POS

Necessary conditions for service initiation:

- Smartphone
- App from bank
- Integrated or external card and /or bio-metric reader
- Reader connects using jack or Bluetooth
- Internet connectivity 2G/3G/4G, or Wi-Fi
- QR code and Bar code reader

Service Activation:

- Merchant Bank a/c
- Download App
- Register device and/or mobile with merchant bank a/c and bank
- May require training or readable instructions

What is required for Transaction?

- Any Card
- Resident for bio-metric auth (AEPS) for registered devices
- Wallet account
- Scanner for reading QR Code and Bar Code

- Self-service and/or Assisted mode

Funds Transfer limit

- No limit for regulator
- Merchant's Bank and payee Bank may set limit based on its own discretion
- Disclaimer: The transaction costs are based on available information and may vary based on banks

Virtual POS

Necessary conditions for service initiation:

- Smartphone and /or Web browser
- Internet connectivity 2G/3G/4G, or Wi-Fi or landline
- E-payment gateway
- Virtual A/c for transactions
- May need QR code

Service Activation:

- Merchant Bank a/c with some merchant credentials
- In case of QR code for pull transactions
- May require ability to identify or authenticate user for service delivery

What is required for Transaction?

- Any Card
- Wallet Account
- Scanner for reading QR Code and Bar Code

Funds Transfer limit

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3. Assisted Mode

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Different types of online financial transactions are:

Real Time Gross Settlement (RTGS)

RTGS is defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis (without netting). 'Real Time' means the processing of instructions at the time they are received rather than at some later time; 'Gross Settlement' means the settlement of funds transfer instructions occurs individually (on an instruction by instruction basis). Considering that the funds settlement takes place in the books of the Reserve Bank of India, the payments are final and irrevocable. 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. The RTGS service for customer's transactions is available to banks from 9.00 hours to 16.30 hours on week days and from 9.00 hours to 14:00 hours on Saturdays for settlement at the RBI end. However, the timings that the banks follow may vary depending on the customer timings of the bank branches.

Electronic Clearing System (ECS)

ECS is an alternative method for effecting payment transactions in respect of the utility-bill-payments such as telephone bills, electricity bills, insurance premium, card payments and loan repayments, etc., which would obviate the need for issuing and handling paper instruments and thereby facilitate improved customer service by banks / companies / corporations / government departments, etc., collecting / receiving the payments.

Immediate Payment Service (IMPS)

IMPS offers an instant, 24X7, interbank electronic fund transfer service through mobile phones. IMPS is an emphatic tool to transfer money instantly within banks across India through mobile, internet and ATM which is not only safe but also economical both in financial and non-financial perspectives.

Objectives of IMPS

- A. To enable bank customers to use mobile instruments as a channel for accessing their banks accounts and remit funds
- B. Making payment simpler just with the mobile number of the beneficiary
- C. To sub-serve the goal of Reserve Bank of India (RBI) in electrification of retail payments
- D. To facilitate mobile payment systems already introduced in India with the Reserve Bank of India Mobile Payment Guidelines 2008 to be inter-operable across banks and mobile operators in a safe and secured manner

National Electronic Fund Transfer (NEFT)

National Electronic Funds Transfer (NEFT) is a nation-wide

payment system facilitating one-to-one funds transfer. Under this Scheme, individuals, firms and corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme. Individuals, firms or corporates maintaining accounts with a bank branch can transfer funds using NEFT. Even such individuals who do not have a bank account (walk-in customers) can also deposit cash at the NEFT-enabled branches with instructions to transfer funds using NEFT. However, such cash remittances will be restricted to a maximum of Rs.50,000/- per transaction. NEFT, thus, facilitates originators or remitters to initiate funds transfer transactions even without having a bank account. Presently, NEFT operates in hourly batches - there are twelve settlements from 8 am to 7 pm on week days (Monday through Friday) and six settlements from 8 am to 1 pm on Saturdays'. To build the foundation for a full range of mobile based Banking services.

Impact of Cashless Transaction

1. Business Process

The impacts of Cashless Transaction on the Business sector are as following:

- Businesses are legally strong.
- Proper audit. Not hidden excess liability.
- Increase use of e-payment.
- Wallet hold business gets an advantage.

2. Education Process

The impact of Cashless Transaction on the education sector is likely to be minimal. Some of the foreseeable fallouts of demonetization on the Indian education sector are as following:

- The decision of the central government to withdraw high-value bank notes to curb unaccounted cash will hurt education institutions that accept donations or capitation fees for admissions.
- Accepting and accounting donations will become difficult because of the demonetization drive. Education sector was not immune to the Indian theory of 'you can buy everything with money'. This move of demonetization will definitely curb this mentality of many in the country
- Nursery admissions, private education institutions and professional higher education including medical and engineering are the segments which accept donations widely. For the first time, these segments are going to feel the impact in a big way.
- Private educational institutions take huge of amount of donations in Cash which is 40% to 50% more than the fees of the course. We expect that demonetization will impact the recipient.
- Admissions in private educational institutions and medical college admissions comes tagged along with donations without a glitch. The donations in medical colleges is usually more than 100% of the fees. Demonetization will impact both admissions and also the receipt.
- MBBS seats in some colleges goes for Rs40 lakh to Rs60

lakh, while MD seats has a range of Rs. 2 core price tag on it. Similarly, engineering and management stream seats have a price tag between Rs 2 lakh to Rs 10 lakh each. This move can change the course of expensive education which can be made more affordable devoid of the capitation fee.

3. Economic Growth

The impact of Cashless Transaction on Economic Growth in India is as following

- According to the Bank, India's growth in the first half of FY 2017 was underpinned by robust private and public consumption, which offset slowing fixed investment, subdued industrial activity and lethargic exports.
- The medium-term may be liquidity expansion in the banking system, helping to lower lending rates and lift economic activity," the World Bank noted.4.4.4. Impact of Information Technology in cashless economy:-

The impact of Information Technology on in cashless economy in India is as following

- Because of information technology the cost of bank will reduce that will result in lower service charges for customers.
- Making Transaction is very easy by using information technology.
- New IT Technology like biometric are help to do secure and transparent transaction.

Importance of Cashless Transaction

- Taxation with lesser availability of hard cash at homes and more in banks, there is lesser scope of hiding income and evading taxation and when there are more tax payers it ultimately leads to a lesser rate of taxation for the whole country.
- Transparency and accountability it becomes a lot easier to track the flow of money with every transaction being recorded with the buyer, seller as well as regulatory bodies, making the system much more transparent and compliant. In the long term it leads to better business and investment prospects for the economy as a whole.
- More currency in bank will mean more circulation of money in the economy, leading to greater liquidity and would eventually mean lesser interest rates (according to the monetary policy of the country).
- Reduced red tapism and bureaucracy: with cashless transactions through electronic means the wire transfers are tracked and people are accountable which in turn reduces corruption and improves service time.

Advantages

- Cashless transaction is only possible with white money which renders the black economy untenable. Black money is a major problem in India and the fact that less than 5% of all payments in the country are made electronically has not helped matters. The number of tax evaders in India is phenomenally high. Cashless transactions will help India get rid of this perennial problem because in financial institution based economy

there are always transaction trails which make it extremely difficult to avoid taxes.

- Real Estate prices would drop considerably because a huge share of black money is invested in this sector which inflates the prices in the real estate market.
- The expenditure incurred by the RBI in printing notes would be considerably reduced. In the year 2015, the RBI spent Rs 27 billion in issuing and managing currency notes.
- Prostitution, drug trafficking, terrorist financing, money laundering and many such activities are carried out only in cash. Cashless transactions would make the operation of such businesses impossible for the criminals. This is one of the major advantages for a crime ridden India.
- Cashless transactions can be easily monitored by the government which will enhance revenue collection and consequently increase the funds to carry out developmental activities.
- The citizens would no longer have to carry liquid cash with them. It would be sufficient to carry mobiles, cards or tablets. Digital transactions are being made available in even ordinary mobile phones which mean that it is not necessary to have only smartphones for digital transactions.
- The majority of election funding in India is made through black money cutting across the political spectrum. Cashless transactions would make it impossible for the political parties to spend thousands of cores of unaccounted money for their election expenditures. The deplorable practice of buying the votes by distributing cash and alcohol to the people would also be eliminated. True democracy would be finally at work.
- The welfare programs that suffer with the chronic problem of corruption and non-implementation would be greatly benefited. The money would be directly transferred to the beneficiary's account and can also be easily traced by the government. The people would no longer be at the mercy of the corrupt government officials who have exploited the poor for far too long.
- Counterfeit currency that is pumped into India to wage an economic war by the enemy countries would be eliminated by a cashless society.

Disadvantages

- Many poor people do not have bank accounts. Although the Jan Dhan Scheme launched by the government succeeded in bringing millions into the banking system, the process is not complete and many of the accounts are non-functional. The government has to rectify this problem and bring the entire poor and marginalized section into the banking system.
- The small retailers in India deal only in cash and have not been able to invest in the digital infrastructure.
- The taxes, surcharges and the fees charged on digital transactions need to be made liberal in order to encourage the people to adopt the practice. Otherwise the public would not be willing to move towards a cashless society.
- Hacking and cyber theft are grave dangers that plague the digital world. Hackers can steal information and money

from anywhere in the world. The challenge before the government is to put strong security systems in place to protect the online transactions from the hackers. Researchers have shown that it is easy to crack the PIN number and gain access to the virtual wallet by using a software, if the cyber-criminal gets possession of the victim's phone.

- The Indian public is not much educated with regards to the benefits of using cards or online payment methods. A vast majority prefer using cash as a convenient method of payment. Even the card holders consider cash to be a quick method and easy method.

Conclusion

Benefit of this have now started trickling in with more & more people switching to digital mode of receiving and making payment. It will improve tax structure of economy and reduce corruption. A large no. of businesses even street vendors are now accepting electronic payments, prompting the people to learn to transact the cash less way at a faster place than ever before. So as a conclusion, it can be said that going cashless provide a lot more benefits but it is need of today that society should play its parts and Govt. should create awareness about methods and ways of electronic payment.

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