

## CASHLESS ECONOMY – FEASIBILITY AND STRATEGIES

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### **Abstract**

*Cashless economy refers to the condition where all the transaction is done through electronic media and channels such as debit, credit cards and online banking. With the implementation of Goods and Service Tax (GST) and change of the national currency the government of India has initiated a major move to transform India from a cash economy to a cashless economy. The study primarily focuses on the available infrastructure in the economy for the nation to evolve as a cashless economy and post math of demonetization and GST to facilitate the economy to go cashless. The changes the economy has undergone, the available resources and the practical challenges different sectors of the economy would face would be discussed. For a country like India, where 75% of the transactions are in cash going cashless is not feasible at one shot but would require a slow and gradual transaction. The benefits the cashless economy would reap are enormous such as tax evasion would be difficult, increase in tax compliance, ease of doing financial transaction, lower risk and help in fighting money laundering, criminal activity. With the shift in paradigm of the nation to a cashless economy, all the transactions would be easily traceable and thus accountable, which would help in curbing the black money from the economy. The paper on the basis of the primary data collected through the various schemes and initiatives of the government would focus on the prevailing challenges existing and the strategies the government should adopt to go cashless.*

**Keywords:** Goods and Service Tax, National Currency, Demonetization.

### **INTRODUCTION:**

The government of India and the RBI are making several efforts to reduce the use of cash in the economy by promoting digital payment devices. RBI'S effort to encourage these new varieties of

payments and settlement facilities aims to achieve the goal of cashless society. And hence, they introduced a major reform in the form of demonetization and goods and service tax to promote the same. Demonetization gave a tremendous boost to cashless transactions. The cashless transaction economy doesn't mean shortage of cash rather it indicates a culture of people settling the transactions digitally.

### **PRACTICAL IMPLEMENTATIONS FOR GOING CASHLESS:**

For adopting a cashless economy in India the various modes available in form of digital transactions which are being considerably implemented and actively used by people are as follows :

#### **1. Cheque**

It is the oldest and most widely used method of cashless payment. The entire transaction done through cheque is recorded and there is a certain proof of payment. However at certain times cheque payments get dishonored due to mismatch in the signature or insufficient fund.

#### **2. Electronic fund transfer system**

The simplest method for the cashless transaction is online transfer using NEFT or RTGS. In order to avail these facilities one must avail the internet banking facility. This method of transferring fund is faster than cheque or DD and can be done from anywhere in the world accessing to the internet banking facility.

#### **3. E -wallets**

It is next a cashless payment option that can be used to purchase products starting from grocery to airline tickets. In order to use E-Wallets customer and merchants both require a smart phone with active internet connection. The most popular example for an E-Wallet is paypal.

#### **4. Mobile wallets**

The next cashless payment method is a mobile wallet. This wallet does not need any debit or credit card, it simply requires the wallet holder to load money into the wallet through IMPS and use it on the move. Examples are Paytm, PayUmoney, Mobiwik etc.

#### **5. Gift card**

It is a readymade card and can be purchased from a merchant or from a bank. The gift card is loaded with a fix cash amount with which we can purchase any item from specific vendor.

#### **6. Banking cards**

These are provided to the customer by a bank by availing the customer's KYC information. The customer needs to apply for the card and get a pin for the same. Plastic cards such as debit and credit cards are examples of banking cards.

#### **7. Aadhar Enabled Payment System(AEPS)**

This system is one of the best cashless payment methods. AEPS is like micro ATM. It uses smart phone and a finger print scanner for the transaction. In order to use this facility it is mandatory to link the aadhar card with the bank account of a person. AEPS can be used to perform transaction like aadhar to aadhar fund transfer, cash withdrawal, cash deposit, etc.

#### **8. Unstructured Supplementary Service Data (USSD)**

This system can be used even if there is no smart phone or internet connection. USSD is mobile banking service. From any mobile phone \*99# can be dialed to operate this service.

### **EFFORTS TOWARDS CASHLESS TRANSACTION ECONOMY:**

The RBI and government have launched several measures for the spread of electronic and other non-cash settlement culture. The Vision-2018 for Payment and Settlement Systems in India brought by the RBI in June 2016 reiterates the commitment to encourage greater use of electronic payments by all sections of society so as to achieve a "cash-less" society. "The broad contours of Vision-2018 revolve around five Cs — coverage, convenience, confidence,

convergence, and cost. To achieve these, Vision-2018 will focus on four strategic initiatives such as responsive regulation, robust infrastructure, effective supervision and customer-centricity,” – RBI.

The vision statement highlights the following plans:

1. Reduction in the share of paper-based clearing instruments.
2. Rise in the growth of the digital payments space.
3. Accelerated use of Aadhaar in payment systems.
4. Government also made fiscal measures for the encouragement of card culture in 2016.
5. Budget exempting service charge on card-based and other digital payments.
6. Various incentives offered by government to promote digitalization in India to make India “Digital India” by focusing on cashless modes.
7. On digital transactions up to rupees 2000, Service Tax of 15% waived off.
8. Digital purchase of fuel through credit cards, mobile wallets or e wallets at a discount of 0.75%
9. Free accident insurance worth rupees 10 lakh on account of online ticket buyers
10. 8% discount offered on purchase of new LIC policies online via its site.

#### **BENEFITS OF GOING CASHLESS TO THE ECONOMY:**

Going cashless has helped in creating a positive impact on society as the paper based methodology in financial transactions has been reduced thereby economy in operations, time and cost. Various benefits of going cashless can be listed out as under:

1. It will help in curbing the generation of black money. The cashless economy has attacked the parallel economy. People who hoard money under their bed, people who launder money bypassing banking channels, terrorist who need money to finance their terror will find difficulty in cashless economy.
2. It will help in reducing instances of tax avoidance. All the transactions can be monitored and hence traced back to an individual. Income tax officials can easily trace out the transactions and it will become difficult for individuals to evade taxes. Ultimately, it will

help in increasing revenue of the government from taxes and more productive activities can be carried out in the economy.

3. It will lead to reduction in real estate prices because of curbs on black money as most of it is invested in real estate which ultimately inflates the prices of real estate markets.
4. RBI spent Rs.27 billion in financial year 2015 on currency issuance and management. This could be avoided if India becomes a cashless economy.
5. Cashless economy will boost consumption as people would not be attracted towards keeping money in banks. More consumption will lead to more production, more employment opportunities & hence, income of people will increase.

### **CHALLENGES IN MAKING INDIA A CASHLESS ECONOMY**

There are a number of obstacles in making India a cashless economy. Some of them are as under:

1. A large part of the population, approx. 50% of Indians is not covered under any banking system. According to 2015, report by Price Waterhouse Coopers, India's unbanked population was at 233 million. 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.
2. The digital mode is a big hurdle for the tech unfriendly people. Since, India has a low penetration of 34.8% as per Internet live stats and only 26.3% of all mobile phone users have a smart phone, therefore, it is difficult to go digital.
3. The low literacy rates in rural India & lack of infrastructure like internet access and power make things extremely difficult for people to adopt cashless economy.
4. In India, there are approx. 350 million internet users. The internet penetration rate is just 27% which is very low in comparison to countries like Nigeria, Kenya & Indonesia etc. It has to be at least 67% which is global median.
5. Only 17% of Indians use smart phones which is very less and only 15% of Indians have internet on their smart phones
6. The internet loading speed is very low. The average page load time is 5.5 seconds in India in comparison to 2.6 seconds in China.

7. POS machines (Point of sales) are must for any cashless transactions. A study was conducted by Macquarie Research and it was posted on website of National Payments Corporation of India in which it has been highlighted that India is still far behind in terms of number of POS machines which is 2 per 1000 debit cards as compared to other countries like Brazil 14.8, China 12.5, Russia 6.1, U.S 13.1 and in Australia 33.2 per 1000 debit cards.
8. Since, India is dominated by small retailers; therefore they don't have enough resources to invest in electronic payment infrastructure.
9. 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.

#### **NEGATIVE IMPACT OF GOING CASHLESS:**

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 with reference to India:

1. Increase in Cyber Crimes: 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
2. Increased chances of trapping: Performing digital transactions using public networks can be more prone to traps on mobile devices and thereby giving opportunity to hackers to access account related sensitive information.
3. 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.

#### **CONCLUSION:**

With limited cash in hand and an indefinite crunch in sight, most people are rushing to cashless transactions. Digital transactions bring in better transparency, scalability and accountability. The new move will compel more merchants to accept digital money. Cash may no longer be king. While one wait for the serpentine queues at ATMs to peter out and currency notes of Rs 100 denomination to become easily accessible again, the adoption of digital payment solutions is picking up at a furious pace. Everyone from the neighborhood vegetable vendor to the shop store owner is embracing digital payment solutions to tide over the cash crunch.

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