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## Cashless Economy : Advantages & Disadvantages

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Research Paper - Economics

### ABSTRACT

*Cashless Economy is a situation in which the flow of cash within an economy is non-existent and all transactions have to be through electronic channels such as direct debit, credit and debit cards, electronic clearing, payment systems such as Immediate Payment Service (IMPS), National Electronic Funds Transfer and Real Time Gross Settlement.*

**Keywords:** Cashless Economy, Payment, National Electronic Funds.

### Introduction

India continues to be strongminded by the use of cash, less than 5% of all payments are electronically; On the other hand, the Minister of Finance, in the 2016 budget speech, spoke about the idea of making India a moneyless society, with the aim of restriction the flow of black money. A non-monetary partnership is defined as an economic state in which monetary transactions are not shown with money in the form of banknotes or physical notes, but sensibly the transfer of digital information (usually electronic representations of money) between the parties performing the transaction. Although society is generally spoken without cash, most countries are increasing their money supply. India is dominated by small retailers. Excessive use of digital payment will save billions of rupees for the Indian economy, as it will help to bring down the cost of cash. As part of the promotion of cashless transactions and conversion of India in a company with less money, different payment methods are available. The goal of this study is to challenge and benefit the cashless economy and focus on various ways of



digital payment.

### **Review of Literature**

Cashless economy is not the complete absence of cash, it is an economic setting in which goods and services are bought and paid for through electronic media. According to Woodford (2003), Cashless economy is defined as one in which there are assumed to be no transactions frictions that can be reduced through the use of money balances, and that accordingly provide a reason for holding such balances even when they earn rate of return. In a cashless economy, how much cash in your wallet is practically irrelevant. You can pay for your purchases by any one of a plethora of credit cards or bank transfer (Roth, 2010) observed that developed countries of the world are moving away from paper payment instruments toward electronic payment cards. Some aspects of the functioning of the cashless economy are enhanced by e-finance, e-money, e-brokering and e-exchanges. These all refer to how transactions and payments are effected in a cashless economy (Moses-Ashike, 2011). Marco and Bandiera (2004) argue that increased usage of cashless banking instruments strengthens monetary policy success and that the current level of e-money usage does not pose a danger to the stability of the financial system. However, it does conclude that central banks can lose control over monetary policy if the government does not run a responsible fiscal policy. There are many important benefits of the cashless economy which should be implemented.

### **Objectives**

1. To review the concept of cashless economy
1. To review the advantages & disadvantages of cashless economy
2. To assess the implementation of the cashless economy by Indian Government.

### **Advantages of a cashless economy:**

1. Usage of cashless mechanisms would ensure that loopholes in public systems get plugged, and the intended beneficiaries are able to avail the benefits due to them. It also leads to increased efficiency in welfare programs as money is wired directly into the accounts of recipients.



2. Efficiency gains can also be seen as transaction costs across the economy come down.
3. Reducing use of cash would also strangulate the grey economy, prevent money laundering and even increase tax compliance, which will ultimately benefit the customers at large.
4. It also provides an on-ramp to financial inclusion and enables e-commerce growth.
5. Being a cashless economy furthers the cause of digitization and takes us one step closer to utilizing technology at its finest.
6. Physical thefts and robberies will reduce with a reduction in cash circulation.
7. The printing cost for currency will come down by and large. Fake currency issues will also reduce.
8. Cards and Mobile Wallets are handier to carry around and take up less space than cash.
9. It becomes easier to follow your expenditure because everything is tracked online.
10. Discounts and cashbacks are being offered for making online payments. Reward points are also being offered by mobile wallets and UPI applications to entice more users.

### **Disadvantages of Cashless Economy**

1. The biggest drawback of the cashless economy is that not everybody has the acquaintance of doing digital transactions.
2. In the big country it is very difficult to implement cashless economy where many sections of the society in rural areas is illiterate and poor.
3. Cashless transaction is very risky as compared to cash related transactions especially for rural people.
4. Due to half knowledge of digital payments peoples unprotected losing their hard earned money to online scam and hacking of bank accounts.
5. Digital mode of payments like the credit card, debit card, wallet payments, internet banking includes some transactions fee which is not the case with cash transactions.



6. Many of the rural people and even some urbanites still do not have a functional bank account in order to make online payments.
7. A majority of India's population is in rural locations, and there are no proper internet facilities available to make online payments.

### **Modes of cashless payment**

#### **1. Cheques and Demand Drafts:**

A cheque is one of the safest and oldest methods of cashless payment. A cheque is issued to a person or business for a specific amount. This cheque is deposited in the receiver's bank, and the money is received through a payment processed by a clearinghouse. A demand draft is safer than a cheque because it cannot be defaulted or dishonoured, unlike a cheque. The DD is signed by a banker to ensure that sufficient funds are available for a successful transaction. The disadvantage of cheques and DDs are that they are time-consuming because a person has to visit the bank and then wait for the cheque or DD to clear.

#### **2. Debit and Credit Cards:**

Debit and credit cards have caught on as a method of cashless trading. A debit card is considered by many to be safer because you are transacting with money in your account. The risk with a credit card is overspending. Debit and credit cards can be used to make purchases online as well as over-the-counter at a store.

#### **3. Net Banking:**

Net banking is an alternative to using your debit or credit card. The user needs to login to their net banking account to approve a payment. Net banking gives you the flexibility of transacting even if you have misplaced your debit card or lost it. You can use internet banking to make utility payments, purchase goods and services online, or send and receive money.

#### **4. NEFT & RTGS:**

National Electronic Fund Transfer and Real Time Gross Settlement are electronic payment systems that allow convenient fund transfer between bank accounts. Both facilities are maintained by the RBI (Reserve Bank of India). The facilities can be used to transfer money only within India. The RTGS transfer window is from 8 am to



4.30pm on weekdays and bank working days. NEFT settlements happen in deferred batches between 8 am to 7 pm on bank working days. There is no facility for 'stop payment' instructions in case of either systems and the payments made are irrevocable.

### **Analysing Cashless Economy**

India lags far behind both emerging market and developed peers in the move towards a cashless economy. India ranks the lowest among BRICS countries in terms of per capita non-cash transactions. Non-cash payments transactions in India amounted to only 11 per inhabitant in 2015, much lower than other BRIC economies, with China reporting 17 such transactions per inhabitant in 2014. Debit cards accounted for the most number of non-cash payment transactions in India. But, the number of debit card holders in India remains relatively low. In India, one in two people have a debit card, which also typically functions as an automated teller machine (ATM) card. Number of Point of Sale (PoS) terminals and ATMs in India are low by global standards when adjusted for population.

### **Conclusion**

It appears that many people actually agree with the government on the usefulness of cashless economy as it helps to fight against terrorism, corruption, money laundering but one biggest problem in the working of cashless economy in India is cybercrime and illegal access.

population is still below literacy rate living in rural areas .For smooth implementation of cash less system in India, licensing payment banks, promoting mobile wallets and withdrawing service charge on cards and digital payments these measures are recommended by Government for transparency and efficiency in e-payment system. A financial literacy campaign should be conducted by government time to time to make population aware of benefits of electronic payments.



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