

CASHLESS ECONOMY

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In this article we will explain about-

- What is a cashless economy?
- Benefits of Cashless economy
- Challenges in making India a cashless economy.
- Steps taken by RBI and Government to discourage use of cash.
- What else needs to be done?

INTRODUCTION

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.

What is a cashless economy and where does India stand?

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 ratio of cash to gross domestic product is one of the highest in the world—12.42% in 2014, compared with 9.47% in China or 4% in Brazil.

Less than 5% of all payments happen electronically

The number of currency notes in circulation is also far higher than in other large economies.

Less than 5% of all payments happen electronically.

Benefits of Cashless economy.

Reduced instances of tax avoidance because it is financial institutions based economy where transaction trails are left. It will curb generation of black money.

In Financial year 2015, RBI spent Rs 27 billion on just the activity of currency issuance and management. This could be avoided if we become cashless society.

There will be greater efficiency in welfare programmes as money is wired directly into the accounts of recipients. Thus once money is transferred directly into a beneficiary's bank account, the entire process becomes transparent. Payments can be easily traced and collected, and corruption will automatically drop, so people will no longer have to pay to collect what is rightfully theirs.

There will be efficiency gains as transaction costs across the economy should also come down.

1 in 7 notes is supposed to be fake, which has a huge negative impact on economy, by going cashless, that can be avoided.

Hygiene – Soiled, tobacco stained notes full of germs are a norm in India. There are many such incidents in our life where we knowingly or unknowingly give and take germs in the form of rupee notes. This could be avoided if we move towards Cashless economy.

An increased use of digital gateways instead of cash would primarily enable a more detailed record of all the transactions which take place in the society, allowing more transparency in business operations and money transfers.

Challenges in making India a cashless economy .

Unavailability of internet connection and financial literacy.

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.

There is also vested interest in not moving towards cashless economy.

India is dominated by small retailers. They don't have enough resources to invest in electronic payment infrastructure.

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.

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.

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

What else needs to be done?

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.

CONCLUSION

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.