

An Article on cashless Economy

Challenges, Issues & Practices

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Shubhangi Agarwal & Priya Bathla

Abstract

In a first of its kind study, we estimate the amount and potential for cashless payments made by households in India. Through an extensive household survey across cities " metros involving &" households, we estimate the extent to which households make non cash expenditure. our key results are:

All household expenses are done via non cash instruments in urban and &.in rural.

Urban India, more than half the households who make cashless transactions spend or more through cashless and almost a quarter of the cashless households spend more than & through cashless.

Urban India, approximately & of the households make cashless transactions in only one item. If the households have an incentive to keep records of financial transactions, they will have higher chances of incurring non cash expenditures.

Supply side constraint "that is unwillingness by the seller to accept such payments is the biggest deterrence to cashless payments.

Introduction

Digital economy refers to an economy that is based on digital computing technologies. The digital economy is also sometimes called the Internet Economy, the New Economy, or Web Economy. Increasingly, the "digital economy" is intertwined with the traditional economy making a clear delineation harder. The term 'Digital Economy' was coined in Don Tapscott's 1995 book *The Digital Economy: Promise and Peril in the Age of Networked Intelligence*. The Digital Economy was among the first books to consider how the Internet would change the way we did business.

According to Thomas Mesenbourg (2001), three main components of the 'Digital Economy' concept can be identified:

- e-business infrastructure (hardware, software, telecoms, networks, human capital, etc.),
- e-business (how business is conducted, any process that an organization conducts over computer-mediated networks),
- e-commerce (transfer of goods, for example when a book is sold online).

But, as Bill Imlah comments, new applications are blurring these boundaries and adding complexity; for example, consider social media and Internet search.

In the last decade of the 20th century. Nicholas Negroponte (1995) used a metaphor of shifting from processing atoms to processing bits. "The problem is simple. When information is embodied in atoms, there is a need for all sorts of industrial-age means and huge corporations for delivery. But suddenly, when the focus shifts to bits, the traditional big guys are no longer needed. Do-it-yourself publishing on the Internet makes sense. It does not for paper copy."

In this new economy, digital networking and communication infrastructures provide a global platform over which people and organizations devise strategies, interact, communicate, collaborate and search for information. More recently, Digital Economy has been defined as the branch of economics studying zero marginal cost intangible goods over the Net.

Advantages Of Cashless Economy

Convenience

The ease of conducting financial transactions is probably the biggest motivator to go digital. You will no longer need to carry wads of cash, plastic cards, or even queue up for ATM withdrawals. It's also a safer and easier spending option when you are travelling. "The benefits are enormous if you leave out the low-income group, which will face a huge challenge," says KartikJhaveri, Director, Transcend Consulting. "For the rest of the country, it is constructive and simple.

Discounts

The recent waiver of service tax on card transactions up to Rs 2,000 is one of the incentives provided by the government to promote digital transactions. This has been followed by a series of cuts and freebies. It's a good time to increase your savings if you take advantage of these. For instance, 0.75% discount on digital purchase of fuel means that the petrol price in Delhi at Rs 63.47 per litre can be brought down to Rs 62.99/l with digital payment.

Similarly, saving on rail tickets, highway toll, or purchase of insurance can help cut your costs. Add to these the cashback offers and discounts offered by [mobile wallets](#) like Paytm, as well as the reward points and loyalty benefits on existing credit and store cards, and it could help improve your cashflow marginally .

Tracking Spends

"If all transactions are on record, it will be very easy for people to keep track of their spending. It will also help while filing income tax returns and, in case of a scrutiny, people will find it easy to explain their spends," says ManojNagpal, CEO, Outlook Asia Capital. "Besides the tax, it will have a good impact on budgeting," says Pai.

Budget Discipline

The written record will help you keep tabs on your spending and this will result in better budgeting. “Various apps and tools will help people analyze their spending patterns and throw up good insights over a couple of years,” says Jhaveri. Controlled spending could also result in higher investing. If the same amount of cash does not flow back into circulation and people continue to use mobile wallets and cards, it is also likely to bring down the latte factor. This means that the Rs 10 you spent on candy or chips, or that regular cup of coffee office is likely to take a hit since you will be short of loose change and smaller currency notes. There’s a lesser chance of budgetary leaks and unaccounted for spends sneaking into your budget at the end of the month.

Disadvantages Of Cashless Economy

Higher risk of identity theft

“The biggest fear is the risk of identity theft. Since we are culturally not attuned to digital transactions, even well-educated people run the risk of falling into phishing traps,” says Nagpal. With the rising incidence of online fraud, the risk of hacking will only grow as more people hop on to the digital platform.

Besides, the latest move by the government to remove the two-factor authentication process for online transactions up to ₹2,000, will not help. Irrespective of the size of transaction, the absence of this additional layer of security will expose thousands to the risk of identity theft. Another weak link is the inadequate redressal mechanism. “With the poor redressal system in India, imagine what a poor rickshaw puller will do if he has his Aadhaar ID stolen?” asks Mumbai-based financial trainer P.V. Subramanyam.

“Given the tedious process and poor grievance redressal, people will have no easy recourse if they lose money online,” adds Nagpal. There is no stringent legal process to deal with this kind or scale of fraud. Add to it the mass identity theft from banks’ or companies’ databases and it can turn into a financial nightmare akin to the data breach in the Indian banking system in October this year.

Losing phone

Since you will be dependent on your phone for all your transactions on the move, losing it can prove to be a double whammy. It can not only make you susceptible to identity theft, but you could also be rendered helpless in the absence of physical cash or any other payment option. This can be especially problematic if you are travelling abroad or in smaller towns or villages with lack of banking infrastructure or other payment options. Another drawback is that you need to keep your phone constantly charged. If the phone dies on you, you will be stranded, particularly if you are in the middle of an important purchase or dealing with an emergency.

Difficult for tech un-savvy

India has a low Internet penetration of 34.8%(2016), according to the Internet Live Stats, and only 26.3% of all mobile phone users have a smartphone (2015), as per Statista figures. Besides the practical difficulty of going digital, “a bigger block is the psychological shift. You are suddenly jumping three generations to the digital medium,” says Pai. Adds Subramanyam: “It’s a problem for the older people, who may suddenly find themselves locked out of their accounts if they can’t download an app or don’t have cash.” The digital medium may prove a challenge for the tech-unfriendly people, who will need more time to adapt or the availability of other options to conduct transactions.

Overspending

While there is no denying the convenience of card or mobile wallet transactions, it could open a spending trap for an unsuspecting population. According to behavioural finance theorists, the pain of parting with money is felt more acutely if you use physical cash instead of a card. Hence, using cash instead of cards or mobile wallet acts as a natural bulwark for people who find it difficult to control their spending. “This is the reason that people could end up overspending, throwing their budgets into a disarray,” says Pai.

Besides, a high penetration of the digital payment system is contingent on the fact that the same amount of cash does not come back into circulation. If it does, people are more likely to switch back to the former ease of using cash as it is a habit that they may find difficult to break.

Conclusion

However, the benefits of this move have now started trickling in with more and more people switching to digital modes of receiving and making payment. India is gradually transitioning from a cash-centric to cashless economy. Digital transactions are traceable, therefore easily taxable, leaving no room for the circulation of black money. The whole country is undergoing the process of modernisation in money transactions, with e-payment services gaining unprecedented momentum. A large number of businesses, even street vendors, are now accepting electronic payments, prompting the people to learn to transact the cashless way at a faster pace than ever before.

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