



Analyzing the Transformation of Economies in the Digital Age: From Cash to Cashless

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ABSTRACT

In the past decade, our global landscape has experienced a rapid digitization revolutionizing various aspects of our lives. Notably, the emergence of internet-based transactions and the prevalence of digital communication platforms such as SMS, emails, and social networks have transformed the way we engage economically and socially. Two important factors that have contributed to this development are the use of mobile phones, and the use of the Internet. We are more ‘on the go’ than ever and get things done while we are on the go via our digital services turning the world to a mobile village. A part of the above-mentioned digital purchases is digital payments. This lecture is to deliver information about pros and cons of cashless transactions system. A few papers have been reviewed for this study and internet is also used for getting more information.

Keywords: Cashless Transactions, POS, RTGS, NEFT etc.

India's payments landscape is in the midst of a profound transformation. Historically reliant on cash transactions, the country has witnessed a notable surge in card-based and mobile payments. Despite concerted efforts by the government and regulators to promote cashless transactions in recent years, India has remained predominantly cash-driven. However, on November 9th, 2016, Prime Minister Narendra Modi announced a groundbreaking measure that shook the entire nation: the demonetization of INR 500 and INR 1000 notes. This unprecedented decision triggered a frenzied rush as people scrambled to exchange or deposit their currency at ATMs before they temporarily ceased operations. Representing the most significant and ambitious initiative to combat black money and counterfeit.

Over the course of history, there have been different forms of payment systems. Originally, barter was quite common. Eventually, various forms of money were introduced. In the mid-twentieth century, charge cards debuted. Ever since then, experts have been predicting the demise of paper instruments and the emergence of a ‘cashless society’. A cashless society describes an economic state whereby financial transactions are not conducted with money in the form of physical banknotes or coins, but rather through the transfer of digital information (usually an electronic representation of money) between the transacting parties. Cashless societies have existed, based on barter and other methods of exchange, and cashless transactions have also become possible using digital currencies such as bit coin. The development of goods and services has played a significant role in changing customers’ payment habits. Commercial institutions, merchants and other service providers are promoting more efficient ways of making payments (Dahlberg 2006).





REVIEW OF LITERATURE

- **Times report (2014)** stated that one of the more successful electronic payment systems is PayPal, which was launched as far back as in 1999. Initially PayPal enabled people to perform transactions of small payments by means of emails and PDA's. Since then, PayPal's system has been re-designed and extended several times, and was acquired by eBay in July 2002. In 2015 PayPal has more than 220 million accounts (PayPal's homepage) and is predicted to surpass its parent eBay in revenue in 2014.
- **Anyanwaokoro & Mike (2016)** Inspected in his research entitled "Cashless Economic Policy in Nigeria: A Performance Appraisal of the Banking Industry" This research will basically compare bank performance under the cash-based period vis-a-vis the cashless period. It relied heavily on historic data, as data that was used in the analysis generated from published annual reports and accounts of the sampled banks between the period of 2009-2011 (cash-based period) and 2012-2014 (Cashless period) of Nigeria. And result of this study found that shift towards cashless policy will reduce the high operational cost incurred in a cash-based economy, Cashless policy will enable Corporations benefit by way of faster access to capital, reduce revenue leakages and reduce cash handling cost. Cashless policy will help minimize the risks associated with the use of physical cash that do arise from burglaries and thefts as well as financial losses in fire outbreaks.

OBJECTIVES OF THE STUDY

- To know the concept of cashless society in India.
- To discuss pros and cons of Cashless Transactions System in India.

RESEARCH METHODOLOGY

This study is descriptive and relies entirely on secondary data. Research papers and internet sources have been utilized comprehensively to ensure the study's comprehensiveness and depth.

CONCEPT OF CASHLESS SOCIETY

A cashless society signifies an economic model where financial transactions no longer rely on physical banknotes or coins but are instead conducted through the transfer of digital information, typically representing money, between parties. While historical instances of cashless societies have relied on barter and alternative exchange methods, modern interpretations often revolve around digital currencies like Bitcoin. However, this article specifically delves into the concept of a "cashless society" as the progression towards and ramifications of a society where physical cash is supplanted by its digital counterpart. In essence, legal tender exists, is documented, and is exchanged solely in electronic digital format.

Cash-less banking may be defined as that banking system which aims at reducing, not removing the amount of physical cash (Currency notes and coins) circulating in the economy, whereas encouraging more electronic based transactions (payment for goods, services, transfers etc.). In other words, it is a combination of two e-banking and cash-based systems. In most developing countries, it represents a middle phase in the development of payment system as illustrated below;

Concept of Cashless Economy





1 Barter Economy

Barter is a system of exchange where goods or services are directly exchanged for other goods or services without using a medium of exchange, such as money (wikipedia, 2016).

2 Cash Economy

An economic system, or part of one, in which financial transactions are carried out in cash rather than via direct debit, standing order, bank transfer, or credit card (collin, 2016).

3 Less Cash Economy

An economy system, in which half of the financial transactions are carried out via Digital/Mobile mode and half of the transactions are carried out via cash (currency/coin/cheques).

4 Cashless Economy

A cashless economy is an economy where most of transaction is carried out via digital devices. Very few transactions were carried out via using cash. Cashless economy will help country to prevent corruption, black money and money laundering. Cashless transaction divided into two modes; physical mode and non-physical mode.

1. Physical Mode: It is further divided into following parts:

- a) **Debit Card:** A debit card (also known as a bank card or check card) is a plastic payment card that can be used instead of cash when making purchases. It is similar to a credit card, but unlike a credit card, the money comes directly from the user's bank account when performing a transaction.
- b) **Credit Card:** Credit Card – enables its holder to buy goods and services with a credit line given by credit card issuer. Funds are settled at a later date.
- c) **Cheques:** Cheque is an order to transfer funds from the payer's bank to the account of the payee. Cheques are generally valid for Three months after the date of issue.
- d) **POS (Point on Sale)/POP (Point on Purchase):** The point of sale (POS) or point of purchase (POP) is the time and place where a retail transaction is completed. At the point of sale, the merchant would calculate the amount owed by the customer and indicate the amount, and may prepare an invoice for the customer (which may be a cash register printout), and indicate the options for the customer to make payment.
- e) **Barter Trade:** This is a system of commercial exchange where goods and services are offered by one party to another interested party in return for other goods and services which are to be offered by the latter to the former.

2. Non-Physical Mode: It is further divided into following parts:

- a) **Mobile Banking:** Mobile Banking a service provided through the combined effort of a bank and a mobile service provider, to perform common banking transactions.





- **SMS Banking:** It is a facility used by some banks or other financial institutions to send messages (also called notifications or alerts) to customers' mobile phones using SMS messaging.
- b) **Online Banking:** Online Banking is fast and convenient way of performing banking transactions such as transferring funds from your savings to current account or to a third-party account. Online Banking has three main types in India i.e. NEFT, RTGS and NECS. Online banking transaction is mostly used by Indian.
 - **RTGS (Real Time Gross Settlement):** RTGS are specialist funds transfer systems where the transfer of money or securities takes place from one bank to another on a "real time" and on a "gross" basis. 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.
 - **NEFT (National Electronic Funds Transfer):** NEFT is one of the most prominent electronic funds transfer system of India. It is started in November 2005, NEFT is a facility provided to bank customers to enable them to transfer funds easily and securely on a one-to-one basis. It is done via electronic messages.
- c) **E-wallet:** An electronic wallet is a virtual or a cashless service used as a substitute for physical cash. Our aim is to present a new way of buying commodities without the application of physical transaction. The aim is to provide the ability to carry out secure transactions that are quick and efficient with the click of a button. The primary concern regarding such types of transaction methods is security.

ADVANTAGES OF CASHLESS TRANSACTIONS SYSTEMS

- **Cost effective to Banks:** With appropriate technology and instruments, the need to be physically present during any financial transaction can be dispensed with. This can reduce transaction costs as cashless transactions often reduce processing costs and waiting times. The process of calculating and tendering the exact change is often cumbersome and time consuming.
- **It will promote financial inclusion:** In India, there are approximately 6.3 bank branches for every 100,000 people, equating to less than 3 branches per 100 square kilometers. For rural areas, these figures drop to 3.5 branches per 100,000 people and less than 1 branch per 100 square kilometers. Notably, 45% of rural households, 28% of urban households, and 38% of all households in India prioritize access and availability when selecting a bank. However, ensuring physical access to a bank is only part of the equation for financial inclusion. An effective system that fosters cashless transactions represents a logical extension of existing policies aimed at enhancing financial inclusion (Mukhopadhyay, 2017).
- **Control of Black Money and check for Anti money laundry:** Even transactions can be done through e banking but same can be traced while it is very difficult to trace the transactions in cash. There is certain check also in depositing and withdrawing money through bank accounts. Hence, it will definitely control over black money and money laundering in the days to come.
- **Up-gradation of technology:** No doubt the focus should shift to encourage cashless transactions with the framework of using different technology available in the present market. Banking are





increasing their ATMs, POS machines, Banking Correspondence and E-Lobby which is ultimately upgrade the technology.

- **Financial Records:** Recording financial transactions has many advantages. First, it aids the Government to collect appropriate tax revenues; second, it can effectively detect, and help curtail, illegal transactions; third, it will give us a better estimate and understanding of the huge unorganized sector in India; and last, but not the least, it will help plug the 'leakages' in various Government programmed. This is perhaps the most direct way of battling issues in corruption and black money in India. Digital footprints have other major advantages. It can make public delivery systems much more efficient.
- **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 (Mital, 2016).
- **Less Time Consumed:** Definitely the level of customer service will go very high and this will help in minimizing customer complaint. Presently banking is required good number of staff to attend and redress the complaints at different stages (Ashok, 2013).

DISADVANTAGES OF CASHLESS TRANSACTIONS SYSTEM

- **Lack of Digital Knowledge:** The biggest disadvantage of the cashless economy is that not everybody has the knowledge of doing digital transactions and hence its reach is limited to urban and semi-urban centers only and therefore it is very difficult to implement cashless economy in the big country where many sections of the society in rural areas is illiterate and poor. Hence the lack of proper infrastructure and education among citizens is disadvantageous as far as the cashless economy is concerned.
- **Risk:** Another disadvantage of the cashless economy is that although it easy to do digital transactions but at the same time it is very risky as compared to cash related transactions. Hence people having half knowledge of digital payments are exposed to cyber fraud and losing their hard-earned money to online scam and hacking of bank accounts and hence it is better to do cash transactions rather than doing digital transactions if one is not fully aware of the online medium of transactions.
- **Involvement of extra charges:** Another demerit of the cashless economy is that digital mode of payments like the credit card, wallet payments, internet banking involves some transactions fee which is not the case with cash transactions and hence any individual thinking of doing online transactions will take into account these transaction costs and will not favor online medium of transactions. Hence the presence of transaction cost is a hindrance to cashless economy finding acceptance among the people of the country.

CONCLUSION





In conclusion, it's evident that mobile platforms possess distinct capabilities capable of addressing the challenges within the Indian payments landscape. They provide a cost-effective avenue for fostering financial access and facilitating payments. This shift towards mobile-based transactions holds the potential to combat corruption and the circulation of black money, thereby fostering economic growth. Moreover, transitioning to cashless transactions can mitigate the risk of theft associated with carrying physical cash, contributing to overall societal security.

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