

A Study on the Impact of Cashless Policy on the Development of Banking Sector of India

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Abstract

Cashless economy is an economy where maximum transactions are done without using the physical cash or the means of hard cash. It is the economy where economic transactions are done with the facilities like credit card, debit cards and on-line transactions by means of fund transfer and using e-wallets. The new policy of demonetization and the stress of the government on cashless transaction is a clear message towards the good economic growth in the country. The demonetization policy has increased the use of online banking services, cheque and e- wallets. It has not only reduced the threat of theft and loss of money on the one side but also facilitated the risk-free transactions. Cashless societies are free from the curse of corruption, has considerably less amount of black money in circulation. It also paves the ways for the employment opportunities, high living standards and equal growth in the economy. The present paper aims to study the impact of demonetization and cashless society in the country. The research indicates the overall development of the market and society. It also studies the challenges faced by the government to establish the cashless economy. 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 world is rapidly moving towards digitalization, and there's no denying its presence in almost all fields of our lives. Whether it is shopping, education, banking, groceries, bill payments, tax filing or any legal documentation. Even money has gone digital, with more and more people preferring to use digital cash payment methods rather than carrying hard cash around. Reducing the economy's dependence on the cash and making it more deviated towards these mediums would result into the betterment of the country and the economy. 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. Cashless economy will boost consumption as people would not be attracted towards keeping money in banks.

Keywords: Demonetization, Cashless Economy, Risk-Free, Transparency, Consumption

Introduction

A cashless economy refers to a system where digital transactions and electronic forms of payment, such as cards, mobile wallets, and online transfers, replace physical cash transactions. In this economy, the electronic representation of money is promoted over transactions by physical notes or coins. To encourage the Cashless Economy in India, the finance minister during Budget Union 2019-20 stated that a 2% tax deducted at the source would be levied on cash withdrawals that exceed Rs. 1 crore in a year from a bank account. The government also added that businesses with an annual turnover of over Rs. 50 crores can offer low-cost digital modes of payments, and no merchant discount rate or charges will be added to the customers. This was a great move by the government to adopt the Cashless Economy in India. 90% of all transactions in India's economy are dependent on cash because

of the big size of the informal sector that employs 90% workforce in India. India will face many challenges to becoming a Cashless society. However, the challenges can be tackled if the Government support developing technologies and infrastructure.

Objectives

- To study the advantages and disadvantages of cashless economy in India.
- To study the steps taken by the Government to promote cashless economy in India.

Review of Literature

- **Alvares, Clifford (2009)** “The problem regarding fake currency in India.” It is said that the country’s battle against fake currency is not getting easier, and many fakes go undetected. It is also stated that counterfeiters hitherto had restricted printing facilities, which made it easier to discover fakes.
- **Ashish Das and Rakhi Agarwal (2010)** “Cashless Payment System in India- A Roadmap,” Cash as a mode of payment is an expensive proposition for the Government. The country needs to move away from cash-based towards a cashless (electronic) payment system. This will help reduce currency management cost, track transactions, check tax avoidance/fraud, etc., enhance financial inclusion, and integrate the parallel economy with the mainstream.
- **Jain, P.M (2006)** E-payments and e-banking opined that e-payments would be able to check black An Analysis of Growth Pattern of Cashless Transaction System. Taking the fullest advantage of technology, quick payments, and remittances will ensure optimal use of available funds for banks, financial institutions, business houses, and common citizens of India. He also pointed out the need for e-payments and modes of e-payments and communication networks.

India’s Cashless Payments Progression

India’s digital payments system has been steadily improving for several years, fueled by advancements in digital technologies and nurtured per the RBI’s goal.

- Since its inception in 2008, the National Payments Corporation of India (NPCI) has been at the heart of the technological advancement of India’s retail payment network.
- These technological advancements reflect the country’s evolving Digital Payments ecosystem. It led to the establishment of the Committee on Digital Payments in 2016, chaired by Shri. Ratan P. Watal, Principal Adviser, NITI Aayog.
- NPCI has developed various modalities in addition to UPI, which were recently released and are mentioned below.
- The Bharat Bill Payment System (BBPS) is a tiered framework for administering a unified bill payment system in India.
- Bharat Interface for Money (BHIM) is a smartphone app that allows the Unified Payments Interface (UPI) to facilitate simple, fast and rapid financial transactions. With merely a mobile phone and a digital payment address, you may make instant bank-to-bank payments.

- **Bharat QR:** An interoperable QR code solution designed by NPCI, MasterCard, and Visa technical synergy. Consumers may pay via connected accounts by scanning the QR codes using Bharat QR-enabled application in an interoperable ecosystem, which merchants can display on their locations or mobile phones.

Challenges for Cashless Economy in India

Cashless Economy may take a long time to become adaptable in India. The challenges are discussed below.

- A huge part of India's population does not have access to smartphones, debit cards, etc. This is the reason why they are dependent on cash transactions.
- People are not educated about how to use cashless methods.
- Most people in India use debit cards to withdraw money rather than paying directly through them.
- People are not aware of privacy and security under cashless transactions, which have become a big challenge for the Cashless Economy in India.
- Only 26% have access to the Internet, and they choose online payment methods for their transactions.

Highlights of the Cashless Economy

- After demonetization in India, the Union made an initiative for card-based and online transactions in India to emerge as a Cashless Economy.
- It led to e-payment startups in India.
- A unified Payments Interface (UPI) was introduced to simplify cashless transactions.
- The Covid-19 Pandemic ignited the massive shift towards digital transactions in India. As per the NPCI Data, the UPI payment in June 2020 was recorded as an all-time high of 1.34 billion in terms of volume, with transactions worth INR 2.62 lakh crore.

Types of Payments in a Cashless Economy

There are different types of payment modes in a Cashless Economy, such as Mobile Wallets, Net Banking, and Plastic Money.

- **Mobile Wallet** – This is one of the most common payment modes in India. Here a user can store money on his/her mobile phone and pay it via apps. The user can transfer money to the mobile wallet using his/her credit or debit card.
- **Plastic Money** – this includes prepaid, credit and debit cards. Cards can be used for withdrawing money from ATMs, for online payment, and swiping for payment at shops, fuel pumps, and restaurants.
- **Net Banking** – in a Cashless Economy, Net banking is one of the best ways for fund transfer from one bank to another. Net banking can be done through a mobile phone or computer.

Government Initiatives for Promoting Cashless Economy

There have been several steps taken by the government to promote Cashless Economy. Some of them include UPI, government schemes, and programs. Let's discuss them below.

- **Demonetization** – the primary goal of demonetization was to curb black money. However, It also nudged India to become Cashless Economy. There was a big spike in the use of payment apps after the declaration of demonetisation.

- **Unified Payment Interface (UPI)**– UPI has facilitated the payment system and contributed massively to the Cashless Economy in India. Through UPI, users can use multiple bank accounts in a single mobile App for transactions.
- **Financial Literacy Centres**– The Reserve Bank of India and the Finance Ministry have established the Financial Literacy Centres, which would provide financial literacy and spread awareness of banking products and services to the citizens of India.
- **Direct Benefit Transfer (DBT)**– This scheme was introduced by the Government of India to transfer the subsidies and benefits of various social welfare government schemes like Old age pensions, MGRGA, LPG subsidy, etc. Schemes like this promoted Cashless Economy in India.
- **GST**– the implementation of GST has also encouraged businesses to choose cashless transactions.
- **Ratan Watal panel on Digital Payments**– This panel is headed by Ratan Watal, and it suggests ways to promote Cashless Economy in India.

Prepaid Payment Instrument- Cashless Economy

As per the Reserve Bank of India, any mode of cashless fund transfer using mobile phones or cards is defined as a 'Prepaid Payment Instrument'. In a Cashless Economy, it can be issued as net accounts, smart cards, mobile accounts, and Net wallets. These are classified into four types, namely- Open Wallets, Semi-open wallets, Closed Wallets, and Semi-Closed wallets.

- **Open Wallets**– these wallets allow you to withdraw money at ATMs and buy goods and services. It also allows you to transfer funds.
- **Semi-Open Wallets**– Here, the customer has to spend what he has as the money can't be withdrawn. Examples of semi-open wallets include Airtel Money or Ola Money.
- **Closed Wallets**– it is the amount of money locked with the merchant in case of return or cancellation of a product. This is popular with e-commerce companies.
- **Semi-Closed Wallets**– money withdrawals can't be made with Semi-closed wallets. However, the user can buy goods and services from listed vendors and at listed locations.

Advantages of a Cashless Economy

One of the best things about the Cashless Economy is the record of transactions makes it impossible to sustain black economics, which can be damaging to the national economy.

- It would curb the black money entering the system. An economy that is majorly cash-based gives advantages to criminal activities like terrorism, human trafficking, drug trafficking, etc.
- In a Cashless Economy, the circulation of fake currency notes can be reduced.
- It would lead to an increase in the tax base, as it is difficult to avoid proper payment in a cashless society.
- In a Cashless Economy, the transaction of funds gets easier across the country. The transfer of money can be done with ease.
- There will be less chance of theft of cash.
- A cashless Economy leads to digital transactions, which bring better transparency and accountability.

Disadvantages of a Cashless Economy

There are various challenges faced in a Cashless Economy. We have mentioned some of them below.

- Cybercrimes have increased a lot due to the emergence of digital infrastructure in a Cashless Economy. That's why establishing secured interfaces is required in a cashless economy.
- Not all people have access to banking facilities which has become a major challenge for the Cashless Economy.
- Lack of knowledge and adequate infrastructure is a big roadblock in setting Cashless Economy.
- The citizens are not aware of the financial and digital instruments available to them. They don't know how to use them, which again becomes a major concern for the Cashless Economy.
- There is a lack of internet connectivity in rural areas when compared to Urban areas. There is a big Urban-Rural divide that needs to be addressed for the betterment of the Cashless Economy.

Suggestion

- 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 for adopting electronic payments.
- Making Electronic payment infrastructure completely safe and secure so that incidents of Cybercrimes could be minimized and people develop faith in electronic payment system.
 - Create a culture of saving and faith in the financial system among the rural poor people.
 - The Reserve Bank of India 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.
 - RBI will also have to shed some of its conservatism, part of which is because it has often seen itself as the protector of banking interests rather than overall financial development.
 - The regulators also need to keep a sharp eye on any potential restrictive practices that banks may indulge in to maintain their current dominance over the lucrative payments business.

Conclusion

The digitization of everything is a step change even greater than the invention and adoption of the internet, primarily because of its scale and pace of change. What we describe today as ‘digital’ in a few years’ time will have no need for the descriptive word. A ‘digital camera’ is already a mere ‘camera’ to those who know no different. In the same way, a ‘digital’ strategy will become business as usual strategy. This is why it is so important to get a head start and learn while there is still time. Digital is changing the world, and progress is not linear. In a world where a smartphone is no longer just a smartphone, but a potential revolution⁸, we invite organisations to explore what digital advances mean for them and their stakeholders. We support the opinion of executives who view digital much more as an opportunity to be tapped than as a risk to guard against. Not every digital initiative will work for every organisation, and it is important to assess capability and capacity for change before deploying a digital strategy. In general, though, the more holistic the initiative, the greater the chance of success. We believe that those who act holistically, and act now, stand to gain the greatest competitive advantage.

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