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A Research paper

on

“Cashless Economy And Its Implications”

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ABSTRACT:

The Research paper is based on a study of Cashless Economy And Its Implications. Cashless system is an vital system which makes life simple but at the end the most significant thing is its implication on the overall progress and revolution of the economy in general. The researcher has adopted exploratory research design of study based on qualitative approach in order to get better analysis of the study. The study is based on secondary data collection. The objectives are to identify the advantages and disadvantages of cashless economy & to discover if India is really ready for a cashless economy. The research work was conducted from March, 2019 to June, 2019

Keywords: electronic fund transfer, internet banking, Digitalization , Money laundering , Tax Evasion.

JEL CLASSIFICATION: G210 , O3



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INTRODUCTION:

A cashless economy is a structure where any kind of money transactions are completed all the way through digital means like debit cards, electronic fund transfer, mobile payments, internet banking, mobile wallets, etc. As per the Government of India the cashless policy will boost employment, lessen cash associated robbery thereby reducing risk of carrying cash. Cashless policy will also decrease cash related fraud and catch the attention of more foreign investors to the country. The impact of cashless economy will be modernization of payment system, decline in the cost of banking service, high security and decline in banking frauds. E-banking will make banking simpler by getting services quicker to its customers thus augmenting banking sector performance. One of the major reasons for introducing cashless economy idea was the financial safety. Other reasons include Eradication of tax evasion, reduction in Money laundering ,Financial inclusion. As per the website of cashless India, the Digital India programme is a flagship programme of the Government of India with a vision to convert India into a digitally empowered society and knowledge economy. “Faceless, Paperless, Cashless” is one of professed roles of Digital India. The striving mission of government of India to drive India towards a cashless economy was advanced with the declaration of demonetization on November 8, 2016. Banking sector is the significant support system of any economy. Cashless economy may have an effect on it optimistically as it will augment financial inclusion of the people which itself helps in plummeting poverty. Cashless economy lessens the load as well as cost of handling cash. Moreover it also becomes easier to trace any criminal actions like burglary, money laundering, cybercrimes, etc.

The Existing Monetary Structure And It's Shortcoming



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The majority of economies in the globe have a central bank or an authority that confers the right to print paper and metal currency and is accountable to guarantee the bearer of its assigned value. though this may come across as a quite simply comprehensible structure, there is a lot additional that goes into 'money creation'. The quantity of cash in an economy at any time is influenced by the market forces of demand and supply and the central authority in control legalize the flow of cash into the market.

The rationale why cash has been an accepted form of exchange for such a extended period is because of the tangibility that it offers to the complete thought of currency. However does money truly require a tangible form that public could identity with?

Delineated here are a few foremost shortcoming of cash –

- At a personal level, cash is problematic to carry and handle. It cannot be found or insured as cash if its misplaced or stolen cannot be recovered.
- Cash is costly to print, examine, shift, stock up and safeguard.
- Forging at all times is going to be a problem as long as paper money is present.
- Cash transaction cannot be traced , consequently provides no transparency, this directs to fraudulent practices and financial offenses such as extreme money laundering.
- Scrutinizing of tax compliance is complex for the Government and more tax evasion is the result.
- Elevated cash handling consequences in a considerable quantity of money exterior to the official economy, thus exploiting the efficiency of policies intended at managing inflation rates.

REVIEW OF LITERATURE:

Cristian Radu(2002),“As magnetic stripe cards are being replaced by chip cards that offer consumers and business greater protection against fraud, a new standard for this technology is

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being introduced by Europay, MasterCard and Visa (EMV). This volume presents a comprehensive overview of the EMV chip solution and explains how this technology provides a chip migration path, where interoperability plays a central role in the business model. The work offers an understanding of the security problems associated with magnetic stripe cards, and presents the business case for chip migration. Moreover, it explains the implementation of multi-application selection mechanisms in EMV chip cards and terminals, and shows you how to design a multi-application EMV chip card layout.

Gambhir A. C., (1989), “Credit cards in India”. He describes that credit cards are relatively new to India. Treated as a status symbol and as a vehicle of consumerism Indian banks burst this business. Till recently as it did not go along very well with the spirit of people because they do not have much money to spend because of bad economic conditions. But with increasing economic and financial liberalization and growing prosperity of the urban middle class banks feels that it is desirable to enter into this line of business. Author feels that Credit Cards and money transfers with latest technological changes would definitely reduce the burden on cash in our system. Therefore, RBI has to give an impetus to the popularity of plastic money which is consistent with present policy of economic and monetary liberalization.

Megha Deora (2018), “Banking and Finance are important pillars of any economy. Cashless economy may affect it positively as it will increase financial inclusion of the population which itself helps in reducing poverty. Cashless economy reduces the burden as well as cost of handling cash. Tracing of criminal activities like robberies, money laundering etc become easier and many other benefits. At the same time it affects banking and finance adversely as well. With the rising cybercrimes, cashless economy causes risk of identity theft, rising consumer debt etc. This paper is to explain the impacts of cashless economy on banking and finance. To understand this, Banking and Financial conditions of the most cashless economy i.e., Sweden is taken into

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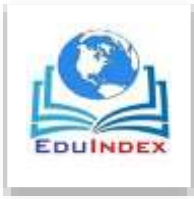
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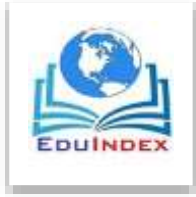


consideration. But every country is different and its issues are country specific. Therefore, the final impact of cashless economy on banking and finance may differ with different countries.

Natarajan and Manohar (1993), “Credit Cards—an Analysis”. A study has been attempted to know that to what extent the credit cards are utilized by the cardholders and the factors influencing the utilization of credit cards. The study is confined to cards issued by the Canara Bank. A random sampling technique is used to collect the data. Ten components i.e. numbers of purchases, shops, percentage of purchases, place, frequency, type of product, type of services, cash withdrawal facilities, add on facility, insurance schemes are identified and used for the measurement. Chi square test has been conducted to know the level of utilization. For this, both personal and nonpersonal factors also have been taken into consideration. Chi square test reveals that sex, age, educational qualification of card holders has no relationship with utilization of Can Card. While occupation, income, employment status of spouse, mode of getting card has relationship with utilization of Can Card.

Radhakrishan (1996) study on “DEBIT CARDS” shows that the debit cards also have found wide acceptability than credit cards because of assurance of payments to retailers, switching of cardholders to debit card because of using interest free period to avoid high interest cost, annual charges as compared to debit cards etc. The study shows that the growth of service industry in the country, electronic fund transfer, point of services offer a large potential for banks to cutting down cost associated with the paper based clearing and payment services. The introduction of debit cards can take place subsequently and the objective should be to attain a critical mass in issuing number of such cards so that the operation becomes cost effective.

Vora and Gidwani (1993), “Plastic at a premium” show the usage facilities and varieties of cards. The research shows that credit card is extremely useful to those people who use it as to increase their purchasing power through the plastic card. Different cards provide the different packages to attract the customers like teleticketing, discounts, insurance coverage and provide reward points etc. According to author, the card holders market has a potential to grow to 7



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million, if all tax paying citizens are taken into account. But these manful efforts at upgrading services can only have a limited impact as long as the Indian customer remains credit shy. For this, they have to change their spending habits and keep their card active, so that a piece of plastic becomes a premium card in an effective way.

THE OBJECTIVES OF THE STUDY ARE:

- To understand the advantages and disadvantages of cashless economy
- To schoolwork if India is really ready for a cashless economy

RESEARCH METHODOLOGY:

- The researcher has adopted exploratory research design of study based on qualitative approach in order to get better analysis of the study. The study is based on secondary data collection.

ADVANTAGES OF CASHLESS ECONOMY:

- **Cost cutback:** Cashless structure reduces the costs allied with printing, storing and transporting of cash.
- **Reduction of Risks:** It is always easy to block debit or credit cards if its stolen or lost . It also become convinient to handle cards during travelling instead of cash as it is safer and easier spending option. Even the threat of money getting robbed or misplaced is negligible.
- **Suitability :** The simplicity of performing any monetary dealings is doubtlessly the principal motivating factor to go digital. With the initiation of digital methods, one can evade Bank's Counter and ATM's queue, perform any financial transaction 24*7 and save time.

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- **Easy Tracking** : Transactions done by mobile or computers can be effortlessly tracked by just one click. This reduces frauds and also users can keep a track of all their spending and manage their budget efficiently.
- **Reduces Tax Evasion:** Everyone from businessman to commonman have a habit of evading tax by doing maximum transactions in cash in order to avoid taxes. On the other hand, in a cashless economy all the transactions can be observed by the government and appropriate actions could be taken against the tax evaders as all the transactions will happen through banks and financial institutions. Consequently this will result into added transparency and reduction in bribery or any other such fraudulent activities in the country.
- **Suppression of Parallel Economy:** It becomes easier to track the black money and unlawful transactions in a cashless economy contrasting to cash based economy in which money does not come into the banking system. In case of digital transactions it is easier to track and scrutinize doubtful transactions as all the records are available with the banks.
- **Financial Inclusion:** Cashless economy and financial inclusion are two sides of the same coin. Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable. Thus it is an effort to reach villagers through brick and mortar bank branches, financial correspondents who visit unbanked villages to provide basic banking services and mobile banking services. It is the first step towards moving to a cashless economy. It is also a need of time to provide data connection at low cost to motivate people in rural areas to adopt cashless economy. And despite the downside of demonetization, it can act as a huge catalyst to bring about change.
- **Discounts:** Huge discounts and offers are provided by vendors on websites for online transactions also they provide enormous offers in terms of cash back, loyalty points to the customers for making digital transactions for online shopping.

DISADVANTAGES OF CASHLESS ECONOMY:

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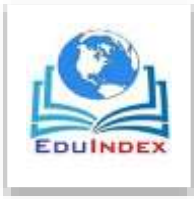
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- **Rural Population:** Lack of appropriate infrastructure and education among rural people is the biggest disadvantage for cashless economy.
- **Transactions Fees:** An additional drawback of the cashless economy is that digital mode of payments like the credit card, wallet payments, internet banking has some transactions fee and therefore any one would think twice before doing online transactions as cash payment has no such fees.
- **Informal Labor Market:** Near about more than 80% of the Indian labor market is informal. Maximum being employed in agriculture and manufacturing sector where daily wage is common. Under such conditions the informal labor market is profoundly cash dependant.
- **Security:** Security is an additional point concerning cashless transactions. The Indian Computer Emergency Response Team (CERT-In) has reported an increase in the number of incidents recently close to 39,730 security incidents. Indians are cautious of digital modes due to various cyber crimes. Digital India undergo from the danger of robbery and hacking of digital money instruments. The ATM cards, Debit/Credit cards, Net Banking solutions and even the transaction websites of the financial institutions and banks are hacked by the people who withdraw money by making clones and changing the passwords.

YES, INDIA IS READY FOR A CASHLESS ECONOMY:

- According to TRAI, as on 30 September 2016, 82 out of 100 citizens in India owned a mobile phone. The progress of the telecom ecosystem, with major fall in call and data rates, together with the prices of smart phones, is driving the shift to a cashless economy.
- The government of India is really working hard to drive India in the direction of a cashless economy. With key projects such as demonetization, Direct Benefit Transfers, BHIM and many more. The objective is to reorganize the economy and control corruption.
- Additionally to promote behavioral changes and lessen the cost of digital payments, referral and cash back schemes have also been launched for BHIM where users and



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merchants receive cash back. Also, initiatives like USSD and the *99# service have ensured that non-Smartphone users can also take advantage of same.

- The government agreed for a proposal, where there would be no charges for BHIM, UPI, and debit card transactions up to ₹2000.

- The Ministry of Electronics and IT has launched a new movement to encourage cashless transactions. The campaign called Digi Dhan Abhiyan will facilitate everyone to promote digital payment in their every day transactions. Under this campaign, the ministry has started a free to air channel DigiShala, which will pass on information in rural and semi urban areas on digital payment methods.

- The ministry has also launched a new website -- cashlessindia.gov.in -- to encourage digital transactions. The website will be a repository of information on diverse scheme in digital payment methods.

- Demonetization has provided a momentum to digital services. According to a report “Securing the cashless economy”, by Pwc, India witnessed 3X increase in the download of a leading mobile wallet app within 2 days of the demonetization announcement.

1 million: Number of newly saved credit and debit cards within two days of demonetization announcement.

100%: Day-on-day growth in customer enrollment with leading mobile wallets after demonetization.

30%: Increase in app usage and 50% increase in the download of wallets backed by leading banks.

The above stated data unquestionably symbolizes a move towards a cashless economy and its apparent that India is ready for cashless economy.

CONCLUSION:

As per the study done the conclusion can be drawn that cashless economy has both advantages & disadvantages and any government before implementing cashless economy



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model should vigilantly examine the pros and cons and then take the verdict as the cashless economy cannot be forced on the people but it can be steadily accepted by the people of the country. The primary advantage of cashless economy is reduction in theft and hassle free life as it gives freedom from carrying cash. An additional advantage of cashless economy is that it is not at all difficult to trace the fraudulent or illegal transactions as well as black Money as all accounts are there with the banks which result in more transparent transactions which consequently drop downs the rate of corruption in the country. Further more the tax revenue of the Government increases as all the transactions are done through organized channel that is through banks or financial institutions .The smart phone revolution has led to the surfacing of e-commerce, m-commerce and other services, including app-based cab aggregates, which support digital payments for use of different services. To add on the services like cash back, bill payment facilities, loyalty points, rewards and simplicity to use have given pitch to such digital platforms. All these improvements have resulted in growth of digital ecosystem and made India ready for cashless economy.

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