

Cashless Economy

This is a type of economy where the economic system is based on the transactions done through debit cards, credit cards, digital wallets and modes. In a Cashless Economy, limited amounts of money transactions can be done. In this economy, the electronic representation of money is promoted over transactions by physical notes or coins.

Highlights of the Cashless Economy

- After demonetization, 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 schemes like Old age pensions, MGREGA, 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.

- Cyber attacks 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.

Cashless Economy in India

To encourage the Cashless Economy in India, the Finance Minister during Budget Union 2019-20 stated that a 2% tax deducted at the source will 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 crore 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.

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.

Why India Should Transform into Cashless Economy

There are various reasons why India should shift to a Cashless Economy, such as

- Cash is Expensive: It takes a lot of time and money to print the currency. The Reserve Bank of India has spent Rs. 32.1 billion on printing the currency.
- Cash Drives Shadow Economy- it is difficult to trace cash, which gives the advantage of carrying out illegal activities like smuggling, trafficking, terrorism, etc.
- Increased Tax Revenue- the Cashless Economy makes it mandatory for all people to have bank accounts. This guarantees transparency in the money transaction within the economy and minimizes the possibility of tax evasion.

Cashless Economy: Way Forward

To shift to a Cashless Economy, India need to learn from other developed countries which have reduced their cash dependency.

- A financial education drive should be carried out to boost the knowledge of e-transactions.
- The banks must make sure that the transaction fee is affordable or free.
- Internet connectivity must be improved in the rural areas of India.
- Infrastructure must be developed to ensure the availability of ATMs to reduce the dependency on Cash.
- Cybersecurity should be enhanced for better security.