



ISSN Print: 2394-7500  
ISSN Online: 2394-5869  
Impact Factor: 5.2  
IJAR 2017; 3(1): 122-125  
www.allresearchjournal.com  
Received: 09-11-2016  
Accepted: 10-12-2016

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## Cashless transaction: Modes, advantages and disadvantages

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**Abstract**

The RBI and the Government are making several efforts to reduce the use of cash in the economy by promoting the digital/payment devices including prepaid instruments and cards. RBI's effort to encourage these new varieties of payment and settlement facilities aims to achieve the goal of a 'less cash' society. 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 new move will compel more merchants to accept digital money. Cash may no longer be king.

**Keywords:** Convergence, NEFT, RTGS, AEPS, point of sale

**Introduction**

**Cashless Transaction Economy**

The RBI and the Government are making several efforts to reduce the use of cash in the economy by promoting the digital/payment devices including prepaid instruments and cards. RBI's effort to encourage these new varieties of payment and settlement facilities aims to achieve the goal of a 'less cash' society. Here, the term less cash society and cashless transaction economy indicate the same thing of reducing cash transactions and settlement rather doing transactions digitally.

Cashless transaction economy doesn't mean shortage of cash rather it indicates a culture of people settling transactions digitally. In a modern economy, money moves electronically. Hence the spread of digital payment culture along with the expansion of infrastructure facilities is needed to achieve the goal.

On November 8th, government withdrawn Rs 500 and Rs 1000 notes- two highest denominations in circulation. Main objectives were to fight counterfeit money and black money. The action has given tremendous boost to cashless transactions as card based and digital payments were not hindered when all high denomination cash transactions suffered because of absence of high denomination currencies.

**Efforts towards cashless transaction economy**

The RBI and government have launched several measures for the spread of electronic and other non-cash settlement culture.

The Vision-2018 for Payment and Settlement Systems in India brought by the RBI in June 2016 reiterates the commitment to encourage greater use of electronic payments by all sections of society so as to achieve a "less-cash" society.

"The broad contours of Vision-2018 revolve around five Cs — coverage, convenience, confidence, convergence, and cost. To achieve these, Vision-2018 will focus on four strategic initiatives such as responsive regulation, robust infrastructure, effective supervision and customer-centricity," – RBI. The vision statement highlights following plans:

- The regulator wants to reduce the share of paper-based clearing instruments
- It aims to raise growth of the digital payments space
- It wants to ensure accelerated use of Aadhaar in payment systems

Government also made fiscal measures for the encouragement of card culture in the 2016 budget. Exempting service charge on card-based and other digital payments was one such step.

Aadhar based payment system will be a big boost for promoting the cashless transaction culture.

A committee of seven members, chaired by a ministry official, Neeraj Kumar Gupta was formed to recommend steps for the reduction of cash based transactions.

The technology has spread internet banking, mobile banking, prepaid instruments, credit and debit cards etc. and at the same time, electronic payments system is fast growing. All these indicate that India is moving towards the RBI's goal of less cash economy-steady but slowly.

It's time to go cashless. The purpose of demonetization is not only to remove black money but also to encourage cashless payment. Instead of breaking heads by standing in ATM queue you should adopt a cashless method for the transaction. A cashless method is more transparent as every transaction can be traced easily as it leaves its footprints. Many smart people have adopted new cashless payment options.

## Modes of cashless transactions

### 1. Cheque

The cheque is one of the oldest methods of cashless payment. It is a known method to everyone. In this method, you issue a cheque for the specific amount to someone else. The cheque gets deposited in the respective bank. The bank processes a payment through a clearing house.

The entire transaction done through cheque gets recorded and there is a proof of payment. However, there are instances where cheque payments get dishonored due to signature mismatch or insufficient fund. In order to avoid such issue, we can use other cashless payment options.

### 2. Demand Draft

Demand draft is another rudimentary way of cashless transaction. It is safest option to receive payment from anyone. Demand draft (DD) never gets defaulted as it is signed by the banker. The disadvantage of DD and cheque is you need to visit a bank in order to deposit cheque and demand draft. The clearance of cheque or DD takes additional time.

### 3. Online Transfer – NEFT or RTGS

The third simplest method for the cashless transaction is online transfer using NEFT or RTGS. In order to do online money transfer, you need internet banking facility. Online transfer using NEFT or RTGS is comparatively faster than cheque or DD. Online transfer can be done from anywhere using internet facility.

### 4. Credit Card or Debit Card

Credit card or debit card is another cashless payment method. The usage of credit card and debit card was limited in India. However, usage of credit card and debit card is increasing now because of demonetization. The limitation of this payment method is an availability of swipe card facility (PoS) at merchant end.

### 5. E-Wallets

E-Wallet is next cashless payment option. E-Wallet can be used to purchase products starting from grocery to airline tickets. In order to use E-Wallet customer and merchant, both require a smart phone with active internet connection. The most popular example of E-Wallet is PayPal.

After registering for E-Wallet you need to link your credit card or debit card with your E-Wallet id. You can use E-Wallet for fund transfer or online shopping. It is simplest cashless method.

## 6. Mobile Wallets

The next cashless payment method is a mobile wallet. You do not need a debit card, credit card or internet banking password for making payment using a mobile wallet. Just load money in your wallet via IMPS and use it on the move. You can download mobile wallet app from play store. Few examples of mobile wallets are Paytm, PayUmoney, MobiKwik, etc.

## 7. UPI Apps

UPI is a mobile payment system which allows you to do various financial transactions on your smartphone. UPI allows you to send or receive money using virtual payment address without entering bank information. Merchants can enroll with banks to accept payments using UPI. Like in the case of a PoS machine, the merchant would require a current account with a bank to accept UPI payments. The examples of few UPI Apps are SBI Pay, Union Bank UPI App, Phonepe, etc.

## 8. Gift Card

The next cashless payment method is a gift card. Gift card is a readymade card and can be purchased from a merchant or from the bank. The gift card is loaded with a fix cash amount you can purchase any item from the specific vendor by using a gift card.

## 9. Aadhaar Enabled Payment System

Aadhaar Enabled Payment System (AEPS) is one of the best cashless payment methods. AEPS is like Micro ATM it uses smartphone and a finger-print scanner for the transaction. In order to use this facility, it is mandatory to link your Aadhaar card to your bank account. You can use AEPS in order to perform transactions like Aadhar to Aadhaar fund transfer, Cash withdrawn, Cash deposit, etc.

## 10. Unstructured Supplementary service Data

You can use USSD cashless option if you don't have a smartphone or internet connection. Unstructured Supplementary Service Data is mobile banking service. From any mobile phone, you can dial \*99# and use this service. You can do all these things which are available to a person with smartphone and internet connection. Almost including SBI, ICICI, BOB, Axis Bank and PNB supports USSD payment option.



## Advantages of cashless transactions

There are several reasons why the government and the RBI brings up measures to promote cashless transaction economy. Besides convenience, digital transaction gives

more scope for recording of transactions and in this way it is a first step against the spread of unaccounted money or black money. Secondly, the problem of counterfeit notes can also be avoided when payment is settled digitally.

### **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. For the rest of the country, it is constructive and simple.

It will be especially useful in case of emergencies. The freedom to transact whenever and wherever you want. You don't have to be physically present to conduct a transaction or be forced to do so only during office hours.

### **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 cash flow 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 spending. Besides the tax, it will have a good impact on budgeting.

### **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 analyse their spending patterns and throw up good insights over a couple of years. 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.

### **Lower risk**

If stolen, it is easy to block a credit card or mobile wallet remotely, but it's impossible to get your cash back. "In that sense, the digital option offers limited security," says Pai. This is especially true while travelling, especially abroad, where loss of cash can cause great inconvenience. Besides, if the futuristic cards evolve to use biometric ID (finger

prints, eye scan, etc), it can be extremely difficult to copy, making it a very safe option.

### **Small gains**

It may not seem like much of an advantage, but being cashless makes it easy to ward off borrowers. Another plus is that you can pay the exact amount without worrying about not having change or getting it back from shopkeepers.

### **Go digital, get discounts**

**Service tax:** Waiver of service tax of 15% on digital transactions up to ₹2,000.

**Fuel:** 0.75% discount on digital purchase of fuel through credit/debit cards, e-wallets or mobile wallets.

**Rail tickets:** 0.5% discount on monthly and seasonal suburban railway tickets from 1 January 2017. Online rail ticket buyers get up to ₹10 lakh free accident insurance too.

**Rail catering:** 5% discount on digital payments for railway catering, accommodation, retiring rooms, etc.

**Highway toll:** 10% discount on NH toll payment via RFID or fast-tags in 2016-17.

**Insurance:** 10% discount by government general insurers on premium paid online via their portals. 8% discount on new LIC policies bought online via its site. POS: Rs 100 a month is the maximum rent that PSU banks can charge for PoS terminals.

**Rupay:** Kisan credit card holders to get RuPay Kisan cards.

### **Disadvantages of cashless transactions**

#### **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. 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?

Given the tedious process and poor grievance redressal, people will have no easy recourse if they lose money online. 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-UNSAVVY**

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. 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 disarray.

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**

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 new move will compel more merchants to accept digital money. Cash may no longer be king. While you wait for the serpentine queues at ATMs to peter out and currency notes of Rs 100 denomination to become easily accessible again, the adoption of digital payment solutions is picking up at a furious pace. Everyone from the neighborhood vegetable vendor to the chai and bhelpuri-wala is embracing digital payment solutions to tide over the cash crunch.

ET Wealth conducted an online survey to find out the level of adoption of digital payment solutions and user habits. The findings reveal that while people are getting comfortable with cashless payments, some mindset issues are holding back many from embracing the newer platforms. The findings also suggest that the usage habits of those who have taken to cashless modes could be exposing them to security threats.

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