



ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 5.2
IJAR 2019; SP4: 262-264

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(Special Issue- 4)
One Day National Seminar
“DIGITALIZATION OF HIGHER EDUCATION”
(2nd March, 2019)

Digitalization- A way towards cashless economy

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Abstract

Cashless Economy refers to a situation where there is a negligible flow of cash within an economy, and all transactions are settled digitally. This is achieved through extensive use of digital payment channels such as NEFT (National Electronic Funds Transfer), RTGS (Real Time Gross Settlement), credit and debit cards, digital wallets, IMPS (Immediate Payment Service), etc. Our Indian Economy has mostly been dependent on paper currency since ages. However, the current Indian Government has seriously been trying to make India a cashless economy. Demonetization was a big step in this direction and significantly promoted the use of digital payment channels over the traditional paper currency. After demonetization of Rs. 500 and Rs. 1000 notes by Reserve Bank of India, government has given a boost to Cashless economy. As a result, government is encouraging people to engage in digital transactions for day to day tasks of financial nature. Apart from all the benefits and challenges this paper also highlighted the challenges before the government in the digitalization in cashless economy such as the lack of Internet to all and low Internet literacy or digital literacy is a drawback. Risks of Hacking of accounts and breach of cyber security is very possible.

Keywords: Digitalization, Cashless economy

Introduction

A Cashless Economy is an economy in which all types of transactions are carried out through digital means. It includes e- banking (Mobile banking or banking through computers), debit and credit cards, card-swipe or point of sales (POS) machines and digital wallets. A Cashless economy is a situation of the non-existence of cash in an economy and transactions can be done through electronic channels like debit and credit cards, IMPS (Immediate Payment Service), NEFT, RTGS in India. Cashless is a game changer reform which consequently turns Indian cash economy into cashless economy. Digitization has the potential to transform India from a developing to a developed economy. Banks are the backbone of any economic system and they play a central role in modern financial system. Now a day's conventional or traditional banking approach got converted into modern banking practices. Demonetization and the cashless path had influenced every corner of the society. For the proper implementation of cashless policy Banks require a huge investment in ICT and other technologies.

Pay digital and win prizes schemes

As India moves towards a digital and cashless economy, the Government announced on 15th December, 2016 two schemes Lucky Grahak Yojana and Digi-Dhan Vyapar Yojana to give cash awards to consumers and merchants who utilize digital payment instruments for personal consumption expenditures.

1. Lucky Grahak yojna

The Lucky Grahak Yojana for Consumers provides a daily reward of Rs 1000 to be given to 15,000 lucky consumers for a period of 100 days; and weekly prizes of Rs 1 lakh, Rs 10,000

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and Rs. 5000 for Consumers who use the alternate modes of digital Payments. This will include all forms of transactions viz. UPI (Unified Payment Interface), USSD, AEPS and RuPay Cards, but will for the time being exclude transactions through Private Credit Cards and Digital Wallets

2. The digi-dhan vyapar yojana

The Digi-Dhan Vyapar Yojana for Merchants provides Prizes for Merchants for all digital transactions conducted at Merchant Establishments and weekly prizes of Rs. 50,000, Rs 5,000 and Rs. 2,500. There will be a Mega Draw on 14th of April – Ambedkar Jayanti. This will give three Mega Prizes for consumers worth Rs 1 crore, Rs 50 lakh, Rs 25 lakh for digital transactions between 8th November, 2016 and 13th April, 2017 to be announced on 14th April, 2017. For merchants too, there will be three Mega Prizes worth Rs 50 lakhs, Rs 25 lakh, Rs 12 lakh for digital transactions from 8th November, 2016 to 13th April, 2017 to be announced on 14th April, 2017.

3. National payments corporation of India (NCPI)

The National Payment Corporation of India (NPCI), a not for profit company, which has the mandate to guide India towards a cashless society, is the implementing agency for the schemes. The NPCI has been directed to ensure a technical and security audit of the same to ensure that the technical integrity of the process is maintained. The Government shall incur an estimated expenditure of Rs 340 crores on the first phase of the scheme (up to 14th April, 2017).

Different modes of cashless economy different modes

- ✚ **Mobile Wallet:** It is basically a virtual wallet available on our mobile phone. We can store cash in your mobile to make online or offline payments. Various service providers offer these wallets via mobile apps, which is to be downloaded on the phone. We can transfer the money into these wallets online using credit/debit card or Net banking.
- ✚ **Plastic Money:** It includes credit, debit and prepaid cards. The latter can be issued by banks or non-banks and it can be physical or virtual. These can be bought and recharged online via Net banking and can be used to make online or point-of-sale (PoS) purchases, even given as gift cards. Cards are used for three primary purposes—for withdrawing money from ATMs, making online payments and swiping for purchases or payments at PoS terminals at merchant outlets like shops, restaurants, fuel pumps etc.
- ✚ **Net banking:** We can do it through a computer or mobile phone. Log in to your bank account on the internet and transfer money via national electronic funds transfer (NEFT), real-time gross settlement (RTGS) or immediate payment service (IMPS), all of which come at a nominal transaction cost. The RBI classifies every mode of cashless fund transfer using cards or mobile phones as 'prepaid payment instrument'. They can be issued as smart cards, magnetic stripe cards, Net accounts, Net wallets, mobile accounts, mobile wallets or paper vouchers. They are classified into four types:
- ✚ **Open Wallets:** These allow you to buy goods and services, withdraw cash at ATMs or banks and transfer

funds. These services can only be jointly launched in association with a bank.

- ✚ **Semi-Open Wallets:** You cannot withdraw cash or get it back from these wallets. In this case, a customer has to spend what he loads. For example, Airtel Money/Ola Money is a semi-open wallet, which allows you to transact with merchants having a contract with Airtel/Ola.
- ✚ **Closed Wallets:** This is quite popular with e-commerce companies; where in a certain amount of money is locked with the merchant in case of a cancellation or return of the product, or gift cards. Flipkart and Book My Show wallets are an example.
- ✚ **Semi-Closed Wallets:** These wallets do not permit cash withdrawals or redemption, but it allows you to buy goods and services from listed vendors and perform financial services at listed locations. Paytm is an example

Governments rural push for cashless economy

In an attempt to encourage poor and illiterate people in rural areas to make digital payments, the government is promoting Aadhaar Pay which ensures financial transactions by just using fingerprint.

India is taking a step on the road to cashless economy:

The government has been working hard to promote digital payment systems. So far, it seems to be working: the government has reported a 400- 1,000% increase in digital transactions since the demonetization. The National Payments Corporation of India, together with the RBI, has launched UPI ("united payment interface").

- ❖ The "Digital India Initiative" has been set up to provide internet access and comprehensive mobile phone coverage across India, helping over a billion people to get online and utilize digital payment techniques.
- ❖ The RBI has been promoting a biometric authentication system for banking.
- ❖ The Aadhar Enabled Payment System (AEPS) can be used to open a Bank Account using just an identification number and finger. Economy in which all types of transactions are carried out through digital means. It inc

Incentives offered by govt. To promote cashless economy through digitalization

- ❖ Government has waived service tax charged while making payments through credit card, debit card, charge card or any other payment card; limiting the waiver to payments up to Rs. 2,000 in a single transaction
- ❖ Digital purchase of fuel through credit cards, mobile wallets or e-wallets, discount of 0.75%
- ❖ Free accident insurance worth rupees 10 lakh on account of online ticket buyers
- ❖ On purchase of new LIC policies online via its site, 8% discount is offered.
- ❖ Government has introduced various technologies like BHIM (Bharat Interface for Money) app to transact between each other as well as with other merchants

Opportunities and Advantages of Cashless Economy in India

The expenditure incurred in printing and transportation of

currency notes is reduced. Cash less economy helps in curbing generation of black money.

- ✚ **Reduce cost of printing money:** Printing money is the direct cost that effects the bank (Reserve Bank of India). In the cash system of economy where maximum people will work on the cash transaction, government has to produce more and more cash notes.
- ✚ **Decreased Crimes:** The risk of theft will continue until people carry cash and by going cashless the same can be reduced. The government, however, has to take measures to curb the online scam and identity theft incidents.
- ✚ **Cost effective to Banks:** Normally, if a bank transactions is done manually, it costs nearly Rs. 40 to 45 and the same is done through internet it costs 7 to 8. Simultaneously, if same transactions is done through either U Mobile or ATM it hardly costs Rs. 12 to 14 and Rs. 3 to 4 respectively. Production of coins and paper currency is indeed an expensive endeavor.
- ✚ **Safe and Secure:** Both it is safer for bank and customer as well, it keeps high degree of secrecy. If stolen, it is easy to block a credit card or mobile wallet remotely.
- ✚ **Improved Economic Growth:** Shopping online gets easy as one can use a number of payment options; from credit and debit cards to net banking. In addition to this, going cashless also has health benefits. With physical currency, the chance of spreading of germs is more.
- ✚ **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 are 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.
- ✚ **Higher Revenue:** A derivative advantage of transparent transactions is collection of tax will increase. Thus generating higher revenue for the government, which in turn will be converted into public welfare policies and schemes.
- ✚ **Saves Money and Time:** Presently banking are required good number of staff to attend and redress the complaints at different stages. They can reduce costs as they no longer need the manual accounting work to be done.
- ✚ **Maintenance Cost:** Maintenance in the form of storage of notes, transportation of the notes to the distant places, security of the notes, and devices for the detection of counterfeit notes. The other major aspect of the maintenance is that the distribution of money through ATM machines at the different locations. It is reported that all this maintainance cost the government about 5% of the GDP of India. In nutshell we can save somewhere around 500 crores by this mean only.

Challenges of cashless economy in India

- ✚ **Digital Literacy:** More than half of the nation still does not know how to use a computer. People in rural areas still don't know There are still many rural and urban areas where there the access of having 2G network is very difficult. Moreover, the cost of Internet access is very high as compared to developed countries.
- ✚ **Few Banks in villages:** The capital city New Delhi alone has about 20 HDFC bank branches. There are

several villages and Tehsils that don't even have one. More the banks, more the cash deposits in accounts. Banks in villages should be helpful in teaching the residents the process, usage and benefits of plastic cards.

- ✚ **Low Literacy Rate:** Low literacy rate hinders the accessibility of banking services. Citizens should not only know how to read and write but also possess basic ICT literacy to fully enjoy the benefits of e-payments.
- ✚ **Language Barrier:** Internet is an English based platform. The details on the plastic card are also in English. The message received on mobile regarding transaction is also in English. Therefore, it is required to use multiple languages regarding these processes or make everyone learn English.
- ✚ **Costly Swipe Machines:** Swipe machines are also not subsidy free. It can only be afforded by rich shopkeepers. It can't be expected from an auto driver or a normal grocery seller to afford swipe card machines. Besides, many street vendors, shopkeepers don't know how to use swipe machines

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