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Cashless Transaction Systems – A Study

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ABSTRACT

Cashless economy is an economic system where the cash flow is low and transactions are made through electronic media. Introduction of cashless economy is felt as modernization of payment system. Many countries adopt cashless transaction system to attract foreign investors to the country and to reduce cash related corruption. Cashless transactions like electronic banking makes banking services easier by bringing services closer to its customers. This research paper explains the paradigm shift to cashless transaction in India. Besides, the study examines the types of cashless modes and payments, importance, benefits and also the research highlights the challenges of cashless policy in India are explained.
Key Words: Cashless transactions, Cashless economy, Electronic Payments, Digital Payments

1. INTRODUCTION

HISTORICAL BACKGROUND

Every human in this world have different needs and wants. To fulfill our needs and wants we need to pay in return to get needs fulfilled. Earlier, all goods and services were bought by exchanging other goods and services; this system of exchange was known as Barter system. The need for monetary value was emerged as an assurance to promise the payment in terms of a promissory note or a coin, this is when currencies or coins came into existence. This is when currencies of different types are issued by the government of a country and then they are exchanged in lieu of products and services. Later, it became an issue for volume payments. Cash might be more expensive for the government, because of recirculation of old, spoilt currency, tax evasion and reducing corruption so cashless transactions helps in transfer of cost of money from government to citizens and thus government collects massive information regarding transactions. Development of new technology and need for global business made cashless transactions more convenient. Cashless transactions do not refer the absence of actual cash, it indicates cash-based transactions are kept minimum. A cashless economy is where a little flow of cash, here, the transactions are made by electronic channels such as debit/credit card, electronic funds transfer, National Electronic Funds Transfer (NEFT), Real Time Gross Settlement (RTGS). Cashless transactions are said to be convenient, affordable secure and it reduces the cost of banking services. Cashless transactions reduce cash related crimes and cash related robberies.

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2. REVIEW OF LITERATURE

Karamjeet Kaur and Ashutosh Pathak (2016) in their research paper explained about cashless transaction methods including their processing and also, they have concluded that there are many number factors that affects the usage of digital payment systems.

Hitesh Kapoor (2016) has identified the few factors that helps in consumer satisfaction with internet banking. Banking is one of the first sectors to be globalized. Change in technologies leads to change in banking strategies. There are few factors which shows more and less impact on customer satisfaction with internet banking services like tangibility, reliability, responsiveness, assurance and empathy.

Subramanian (2014) have found that internet banking system is more effective in India and also, this study reveals that all electronic payment modes have a huge growth when compared to cash-based payment systems.

Hock-Han Tee & Hway-Boon Ong (2016) have examined the effect of adopting cashless payment system in EU countries in the period of 2000-2012. There are many different types of cashless payment system, adoption of one method affects the other type of cashless payment method in the short run. Impact of following cashless payment system on economic growth is observed in long run, thus, policies to improve cashless payment system will not affect the economy immediately.

3. BENEFITS OF CASHLESS TRANSACTIONS

1. Faster Transactions

Cashless transactions are faster, it serves more than three times more people than if it is in cash transactions. It has vanished the process of queuing. Individuals more convenient in cashless transactions. This has reduced the stress level of employees and helps them in enjoying their work.

2. Transaction settlement

E-banking transactions are done in national level and in international level , here the bank stands as paying bank to the customers for settlement of transaction or as a collecting bank for collection of payment on transactions. When these transactions are done e-banking speeds up the process in both the cases.

3. Transparency

Cashless economy helps in money laundering because of its transparency nature. Cashless transactions help in reduction of cash transactions which enables the detail record of all the transactions. This also helps in curbing of black money and reduce tax avoidance. Cashless payments help in reduction of cash-related crimes.

4. Reduced maintenance costs

The cost of processing cash is higher. It requires huge amount to print the cash, to store them, to transport and to distribute. Cashless economy does not require to spend more. Digital transactions improve consumption and production rates.

5. TYPES OF CASHLESS MODES AND PAYMENTS

1. Mobile Wallet

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It is a virtual wallet available on mobile phones, the credit and debit card details are stored in the mobile device so the user can pay with smartphones. This helps in reducing the use of plastic cards to make purchase. An individual can have cash in mobile to make online or offline payments. Consent service providers offer these wallets through mobile applications, the user needs to create an account with a wallet provider and can add money through bank account or cash. Money can be transferred to this wallet by using credit or debit card or net banking. This mobile wallet system is easy to pay bills and make online payments.

2. Plastic Money

Plastic money is nothing but using cards for making payments other than cash. It includes credit, debut, gift and prepaid cards. These cards are issued by banks or non-banks. The primary usage of these cards is to withdraw money from ATM, payments at PoS terminals, making online payments etc.

3. Net banking

Using net banking, money can be transferred from one bank account to another bank account through online. This can be done through a mobile phone or computer by logging in to bank account in mobile phone or computer. National Electronic Funds Transfer (NEFT), real-time gross settlement (RTGS) or immediate payment service (IMPS).

6. FEW OF INCENTIVES ANNOUNCED IN CASHLESS TRANSACTION

1. Rupay cards to farmers

In order to transact money for agricultural needs, Co-operative banks and Rural Regional Banks provide “Rupay Kisan Cards” to farmers. This plan covers more than 1 Lakh village come under this and total of 75 crores farmers were benefited through this.

2. Service tax exemption

A single transaction up to Rs.2,000 paid through debit or credit card for which the there is no tax is charged.

3. Discount on fuel purchase

Buying fuels through debit card, credit card and e-wallets gives a discount of 0.75%.

4. Discount on Sub urban Railway tickets:

From January 2017 a discount of 0.50% for purchase of Sub-urban railway for monthly and seasonal tickets.

5. Discount on Rail utilities

For accommodation and catering at railway station, payments made on digital basis can avail 5 per cent discount.

6. Discount on insurance premium

Individuals paying through online of public sector general insurance companies will be given 10 percent discount.

New life policies made through the portal of LIC can avail 8 percent discount on premium.

7. Insurance cover for rail travelers

There is vast increase in the level of passengers who book online tickets. Currently, 58 percent of passengers book tickets online. Railway provides free accident insurance coverage of Rs. 10 Lakhs for those who book tickets online.

8. Ceiling on monthly charge on Point of Sale (PoS) machines

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To bring the small merchants to digital payment eco-system, monthly rental for PoS terminals/Micro ATMs given by banks will be capped at Rs. 100.

9. Discount on Highway toll

A discount of 10 percent is offered for online payment of toll on national highways using fast tag or RFID cards.

10. PoS machines in Village

Villages with a population of 10,000 will get 2 point of sale machines for free of cost. One lakh village has been selected for this scheme.

7. BARRIERS TO DIGITAL PAYMENTS

- Habit of using cash
- Inferiority complex to switch digital payment
- Fraudulent activity
- Incentives/offers from other methods
- Less reach of digital payments

ADVANTAGES OF CASHLESS PAYMENT SYSTEM

- One of the major advantages of digital payments are individuals does not need to carry cash with them, which reduces the theft of wallet.
- Though all transactions are done through an organized channel like financial institutions and banks, the tax revenue for the government will in increase in all transactions of digital methods.
- Digital payments cut down the illegal transactions of cash and reduces the circulation of black money.

DISADVANTAGES OF CASHLESS ECONOMY

- Countries with more population find it difficult to implement digital payments, has it reaches only urban and semi-urban areas and senior citizens finds it difficult to adapt digital payments.
- In rural areas most of them are illiterate and poor and also lack of infrastructure and education is disadvantage in implementing cashless economy.
- Digital transactions are riskier when the people are half knowledge about the digital payments. They tend to loss their money to online scam and hacking of bank accounts.
- Digital payments like credit card and wallet payments involves transactions fee which is not charged in case of cash.

8. CONCLUSION AND IMPLICATION

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However, digital payments are traceable and easily taxable, leaving no room for the circulation of black money. Manu business people and even street vendors are accepting digital payments for a faster transaction. Despite of many benefits, there are several challenges like inadequate number of ATM's digital illiteracy and lack of internet facility, when this are fulfilled by Government digital payment system will reach the unreached. Efficiency in e payment system should be brought by Government and also RBI and Government should encourage cashless transactions.

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