

Cashless Payment System: What, Why and How?

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Abstract

Cashless Payment System is hot debatable topic after Demonetization. Obviously, it is not a novice term but it came into light when cash crunch occurred. The Government of India and RBI has made several efforts to shift to a less-cash society by encouraging digital payments methods, which are numerous in number. The digital transaction system transforms a traditional society operating on cash basis to a cashless one. It brings in transparency and accountability. The new shift will compel more traders to accept payments via digital mode. This paper covers broad aspect of Cashless Payment System which includes reason of moving towards cashless society, modes of cashless payment system and also how this new structure works.

Keywords: *Cashless System, Cash Crunch, Digital Transaction, Demonetization.*

INTRODUCTION

Cashless Society – What?

During the past two decades, India has hard-pressed to become less-cash society. In 1990, the Reserve Bank of India led the development of technological infrastructure that assisted the creation of a payment and settlement ecosystem. Then, in 2007, the Parliament of India has passed the Payment

and Settlement Systems Act, after which RBI came up with the vision documents for 2009-12, 2012-15 and 2015-18 in order to promote wider acceptance of electronic payments in the economy. The Government of India has encouraged this shift towards cash-less society with its initiative for digitalization through JAM Trinity: Jan-Dhan Yojana, Aadhaar, and mobile connectivity.

The Government and the Central Bank i.e. RBI are making many efforts to minimize the use of cash by encouraging the digital payment devices which includes prepaid cards, smart cards etc. RBI's work to promote these new varieties of settlement and payment facilities aims to achieve the goal of a 'cash less' society. Here, the term cashless transaction society means doing digital transactions instead of cash.

Now-a-days, cash moves electronically. Therefore, the technological advancement along with the spread of electronic payment culture is required to achieve the goal.

On November 8th, 2016, the Government of India has withdrawn two highest denominations i.e. Rs 500 and Rs 1000 notes in circulation. The main objective behind this move was to fight black money. This action has encouraged the cashless transactions based on card or digital payments because such transactions won't get impacted with the withdrawn of high denomination currencies.

Cashless Society - How?

The Government of India and RBI have put many efforts for the spread of Cashless settlement culture. As per the RBI Vision document – 2018 for Payment and Settlement Systems reiterates the commitment to promote the use of digital payment methods by the whole society in order to achieve a Cashless society.

“The broad outlines of Vision-2018 revolves around these five Cs — coverage, convenience, confidence, convergence, and cost. To achieve these Cs, Vision-2018 will emphasis on these four strategic initiatives – responsive regulation, robust infrastructure, effective supervision and customer-centricity”. The vision statement is expected to result in:

- Continuous decrease in the share of paper-based clearing instruments;
- Continuous growth in individual segments of retail electronic payments systems viz. NEFT, IMPS, Card Transactions, mobile banking etc.;
- Increase in registered customer base for mobile banking;
- Significant growth in acceptance infrastructure; and
- Accelerated use of Aadhaar in payment systems

Government also formulated certain fiscal measures for encouraging the card culture in 2017 budget. Exempting service charge on card-based and other digital payments was one such step.

For encouraging the Cashless Payment System, the Aadhar based payment system will be a big boost. The advancement of technology has spread mobile banking, internet banking, credit card, debit card and

other prepaid instruments, which leads to the growth in electronic payments system. Therefore, we can say that, slowly and steadily, India is moving towards the goal of Cashless economy.

Now is the time to go cashless. The main objective of demonetization is not only to eradicate black money but also to promote cashless payment. A cashless payment method is more transparent as every transaction can be traced easily. Majority of smart people have embraced cashless payment options.

Cashless Society - Why?

1. Ease of Transactions

The biggest motivation to opt for the digital means for doing financial transactions is probably the ease and convenience of conducting. There is no longer requirement to carry cash, plastic cards, or even stand in queues for cash withdrawals. It's also a safest and easiest way of spending when you are travelling. Cashless payment mechanism provides the freedom to do transaction bound to do so only during office hours.

2. Discounts

Cashless payments through digital means provides various kinds of discounts like waiver of service tax on transactions through cards up to amount of Rs 2,000 is one of the main incentive provided by the government of India so as to promote digital transactions, 0.75% discount on digital purchase of fuel (Petrol

and Diesel), saving on railway tickets etc can help to cut the costs. Additional benefits are cash back offers and other discounts offered by mobile wallets like Paytm, freecharge, Mobikwik etc as the loyalty benefits and reward points are given on existing credit and store cards.

3. Check on Spending

With this new way of spending for payments record, it will be very easy to keep a record of transactions because all transactions are officially recorded in a desire manner. This will also help in managing funds and maintaining budgets, filing income tax returns

4. Reduced Risks

Risk of theft of cash will be reduced to a great extent because with the help of e wallets and cards, one needs not to carry cash with him/her. For example, If card (debit or credit card) stolen, it is easy to block the card and mobile wallet remotely, but it is not possible to get back the cash once lost.

5. Control on Black Money

Black money is one of the major problems India is facing; tax evasion is phenomenally high in India. Cashless transactions will help the country to get rid of this long-lasting problem because many payments will be made through online means via bank either through card or mobile wallet or e- wallet etc. which

helps a govt. to keep check on movement of money within an economy.

6. Control on illegal activities

Various criminal and illegal activities like terrorist financing, drug trafficking, money laundering, Prostitution, funding for terrorist activities etc are usually carried out only through cash so that no official record can be maintained. Cashless transactions would hamper the businesses of criminals.

7. Generation of Revenue

Cashless transactions helps the government in enhancing the revenue collection because money transaction will be on records of government and banks which consequently helps the government in carrying out more developmental activities.

GO Cashless – Modes

After the announcement of demonetization by the Prime Minister Mr. Narendra Modi on 8th November, there is a number remarkable increase in number and volume of digital transactions. Due to cash crunch situation after demonetization, cashless digital payments have become a necessity for day to day payment transactions. After demonetization, Government of India has been encouraging people for using digital payment methods while doing any kind of payment transactions against any sale/purchase.

Digital Payment Methods for Cashless Payments

1. Cheque

This is one of the oldest methods of making payment in a cashless manner. Under this method, cheque is issued for the specific amount to someone. The cheque will be deposited in the respective bank then the bank will process a payment through a clearing house. The whole transaction will be recorded and there is a proof of payment. But sometimes, cheque payments may also get dishonored due to many reasons like signature mismatch or insufficient fund etc.

2. Demand Draft

Demand draft (DD) is also one of the simple ways of cashless transaction. Demand draft (DD) is the safest manner to receive payments because it is signed by the banker so the chances of default will be eliminated, but the shortcoming of DD and cheque is that one needs to visit a bank branch so as to deposit cheque and demand draft and their clearance takes additional time of 2-3 days.

3. Online Transfer – NEFT or RTGS

The method for the cashless transaction is doing online transfer through National Electronic Fund Transfer (NEFT) and Real Time Gross Settlement (RTGS). NEFT and RTGS allow transferring funds from one bank to another to individuals, companies and firms by using internet banking facility. Online transfer of money by means of NEFT or RTGS is relatively faster

than cheque or DD. Online transfer can be done from anywhere using internet facility.

4. Banking Cards (Credit Card or Debit Card)

Another cashless payment method is card system. Bank issues various kinds of cards to its clients like credit card, debit card etc. The use of credit card and debit card was earlier limited in India, but after demonetization their usage has comparatively increased. One just need to swipe card at merchant end. Debit cards can also be used as an ATM to withdraw money from bank.

5. E-Wallets

E-Wallet is next the option for cashless payment. E-Wallet can be used to do all kind of shopping from grocery shopping to airline tickets. To use E-Wallet a customer and merchant requires a smart mobile phone with active internet connection. Currently E-Wallet is offered by PayPal, Paytm, Mobikwik, Free charge etc. For registering for E-Wallet facility one need to link his/her credit card or debit card with the E-Wallet id.

6. UPI (Unified Payment Interface) Apps

UPI is another cashless payment system by using Mobile. It allows doing various kinds of financial transactions on your Smartphone. One can send or receive money through virtual payment address without even entering bank information. A merchant have to enroll with the banks for accepting

payments using UPI. Some examples of using UPI Apps are SBI Pay, Union Bank UPI App, Phonepe, etc. UPI works for 24/7 on real time fund transfer system

7. Gift Card

The next mode for cashless payment transaction is a gift card. This is a like readymade card system and it can be purchased either from a merchant or from the bank. The gift card is loaded with a specific fix cash value through which one can purchase any product from the specific vendor by using a gift card.

8. Aadhaar Enabled Payment System (AEPS)

Aadhaar Enabled Payment System (AEPS) is also one of the methods for cashless payment. AEPS is like a Micro ATM, it works with a Smartphone and a scan of fingerprint for the transaction. For using this facility, it is essential to link your Aadhaar card with your bank account. You can also use AEPS in order to do transactions like Aadhaar to Aadhaar fund transfer, withdrawal of cash, deposit of cash etc.

9. Unstructured Supplementary service Data

Unstructured Supplementary service Data (USSD) is also a cashless option for payment if you are not having a Smartphone or internet connection. USSD is a mobile banking service. To use this service from any mobile phone, you can dial *99# and one can easily do all the things which a person can do with Smartphone and internet connection.

Almost all banks like SBI, Axis Bank PNB, ICICI etc supports USSD payment option.

10. E- Coupons

These electronic coupons (E coupons) are usually offered by many online mega stores. These coupons are very useful in availing discounts while purchasing via online shopping. One just required to enter the e-code and can avail the discount automatically. They do not require any printing or clipping. These coupons carry unique identification code which can be used anywhere with the help the internet at particular sites.

Cashless Society - Drawbacks

1. Increased risk of identity theft

The risk of identity theft is the biggest fear. As, we all are not much accustomed to the cashless transactions, even the well-educated people have the risk of falling into phishing traps. With the increasing incidences of online fraud, the risk of identity theft i.e. hacking will also increase as more and more people use the digital platform. Further, with the inadequate redressal mechanism in India, imagine what a poor cobbler will do if his Aadhaar ID has stolen? Due to the tedious process and poor grievance redressal system, people will have no easy option if they lose money online. There is no such legal process to deal with this kind of fraud. Moreover, the identity theft from banks' or companies' database can turn into a

financial nightmare. Cyber Crime is the main peril to Cashless Economy. If such a scenario takes place, it would be a great security issue to each and everyone

2.
3. **Difficult for tech-UNSAVVY**

India has a very low Internet penetration i.e. of 34.8% (2016), as per the Internet Live Stats, and around 26% smartphone users are there (2015) as per the Statistics. Besides this, many people who are above 50 years are not tech savvy. Educating them of digital transactions is again a big task as they can't download an app. Therefore, doing payments online can be a challenge for the tech-unfriendly people.

4. **Overspending**

Digital payment i.e. through card or mobile wallet is a more convenient method of spending. And according to the behavioural finance theories, majority of people have a tendency to spend more digitally as they don't have any physical cash with them. Therefore, it is difficult for them to control their spending and finally they end up overspending.

5. **Presence of Transaction Cost**

Digital mode of payments like the credit card, wallet payments, internet banking involves some transactions fee i.e. 2% which is not in the case of cash transactions and therefore any individual thinking of doing digital transactions will have to bear these transaction costs and will not favor

cashless medium of transactions. Therefore, the presence of transaction cost is a limitation to cashless economy finding acceptance among the people of the country.

Conclusion

After demonetization, cash in hand availability is reduced and an indefinite crunch situation has aroused. Many people start opting for cashless transactions system. Cashless transactions systems like cheque, NEFT, RTGS, E-wallets etc. bring in better accountability, transparency, and scalability. This new move has encouraged many merchants to accept digital money. Cash may no longer be called as a king because after demonetization period currency availability has improved with a passage of time but the using of digital payment means is picking up at a great pace. As many people like vegetable vendor, chai-wala, bhelpuri-wala, and many other small vendors are embracing digital payment solutions to get over the cash crunch.

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