



Magadh Mahila College

Patna University, Patna

M A Economics

Semester II

Paper: Indian Economics- Issues & Policies- (I) (CC 05)

Topic: Cashless Economy and Demonetisation (i)

Content By: Dr Pushpa Sinha, HoD, Department of Economics

E-mail: pushpasinha.6360@gmail.com

Mobile no: 9939470108

Cashless Economy

A cashless economy describes an economic state whereby financial transactions are not conducted through money in the form of paper currency which includes physical banknotes or coins, but rather through the transfer of digital information using cards and digital gadgets. Traditional currency are replaced by electronic representation of money where the transactions are done digitally with the help of debit cards, credit cards, mobile banking, internet banking, card swipe at point of sales (POS) machines and digital wallets.

India is majorly cash driven economy where people prefer to carry cash instead of cards. But digitalization has affected every person and as a result India is moving towards cashless economy in order to minimise the dependency on paper currency.

It is important to curb shadow economy, corruption, terror -financing, human and drug trafficking, counterfeit-currency etc. Cashless economy is cost effective, growth friendly, business friendly, pro-financial inclusion, etc. Government is promoting it through BHIM app, AEPS, Digishala etc. Cashless economy requires robust digitalization. It has various challenges such as escapist attitude of people, poor transaction security mechanism, insufficient infrastructure etc. However, India is moving towards “less cash economy” -a phase of cultural-economic transition.

Government Steps For Digitised India

- ▶ Opening of bank account through jan dhan yagna connected with Aadhaar card
- ▶ Option of income disclosure scheme

- ▶ Demonetisation
- ▶ Cashless economy

Three Major Types of Payments

1. Business to business (NEFT, RTGS)
2. Consumer to business (debit card, credit card)
3. Consumer to consumer (e wallets)

Ways to go cashless

1. Net Banking/Account Transfers

There are three services available for such a kind of transfer:

- a) National Electronic Funds Transfer (NEFT)
- b) Real-time Gross Settlement (RTGS)
- c) Immediate Payment Service (IMPS)

National Electronic Funds Transfer (NEFT)

- ▶ In NEFT, the money gets transferred to another bank account during bank working hours, in hourly batches.
- ▶ Transaction timings for NEFT is 8.00am to 7.00 PM in six batches **(upto 10 lacs)**

Real-time Gross Settlement (RTGS)

- ▶ RTGS is done for between **Rs. 2 Lac and maximum 10 Lac**. They can cost somewhere between Rs. 30 to Rs. 55, depending on the value of the amount transferred(temporarily these charges are removed by Government to imbibe Cashless India)
- ▶ No waiting period involved so it creates time value.

Immediate Payment Service (IMPS)

- ▶ The facility of IMPS is available 24*7, and one can transfer the money instantly. The maximum amount one can transfer through IMPS is **Rs. 2 Lac**. Immediate transfer (24*7) (11 digit IFSC – Indian financial system code)

2. Debit Card

A payment card that deducts money directly from a consumer's account to pay for a purchase. Debit cards eliminate the need to carry cash or physical checks to make purchases.

3. Credit Card

Credit card is a card issued by a financial company giving the holder an option to borrow funds, usually at point of sale. Credit cards charge interest and are primarily used for short-term financing.

4. Prepaid Card

These are prepaid cards which have certain cash limit assigned to them. These are readily accepted cards and can be used at any shop and can also be used for online purchase of products.

5. Physical coupons

These are paper coupons which come in small denominations of Rs 10 to Rs 50 with a validity of 6 months to 18 months. These are used by corporate to reward their employees. The best use of these coupons can be done in buying meals from places such as Pizza Hut, Dominoes, KFC, Big Bazaar, etc. Out of many, two big giants that are providing these coupons are Sodexo and Ticket Restaurants.

6. AEPS (Aadhaar Enabled Payment System)

Going ahead, you can use Aadhaar cards as a debit card in various merchant stores. These cards have been already linked to your bank accounts. You will be provided with a finger scanner at the merchant's store to do your payments. Aadhaar-cum debit cards will allow you to do micro-payments.

7. USSD –Unstructured supplementary service data

The steps for using the USSD method of payments is very simple and can be followed in a few steps as mentioned below.

- ▶ Enter *99#
- ▶ Enter 3 letters of bank name or IFSC code first four digit
- ▶ Select option of fund transfer
- ▶ Payee mobile number or MMID
- ▶ Enter amount and MPIN leave space and enter first four digit of account number

