FIELD: BUSINESS AND FINANCE

CONTEXT:

Discuss Pros and Cons of Cashless Economy

A cashless economy is one which financial transactions are not conducted with physical banknotes or coins, but instead with digital information (usually an electronic representation of money). Instead, people and businesses transfer money to one another digitally via credit cards, debit cards, digital wallets, or online and mobile services, such as PayPal, Apple Pay, Venmo and Zelle.

For instance, during COVID, economists, business owners and financial analysts discussed the possibility of a cashless economy. Businesses chose to go cashless in order to avoid unnecessary physical contact with customers and to promote a faster form of payment, limiting exposure to the highly contagious virus.

 Types of cashless economy

1. Mobile wallet

This wallet is provided through mobile apps that must be downloaded to the phone. It helps keep cash in your phone and use it to make online and offline payments. One can deposit funds into these wallets via credit card or debit card or net banking and avoid entering your credit card information every time one pays a bill or make an online purchase using the wallet.

1. Plastic Money

Examples of plastic money include credit, debit and prepaid cards. The latter can be physical or virtual, and it can be issued by banks or non-banks. These can be purchased and recharged online through Net banking and used to make online or point-of-sale (PoS) purchases, as well as given as gift cards.

1. Net banking

Is a method of online transfer of funds from one bank account to another, a credit card or a third party that does not require the use of a wallet. It is possible to do so using a computer or a mobile phone. Log in to your bank account on the internet and transfer funds using national electronic funds transfer (NEFT), real-time gross settlement (RTGS), or immediate payment service (IMPS), all of which have a low transaction fee.

The latest buzzword in global finance is ‘’cashless economy.’’ Only 15% to 20% of the world’s money is currently in the form of currency notes. This is absurd in and of itself. Many central banks and governments around the world, however, have pledged to reduce the cash percentage to zero. This means that the first currency notes could be redeemed to gold. This served as the gold standard. Currency notes could later be redeemed for other currency notes, making it the paper standard. The next standard will be digital media, with digital money being the only currency. Money will no longer be a tangible asset. Instead, it will be purely fictitious, with money only existing in the virtual world.

The cashless economy is growing rapidly globally and is soon becoming the most preferred process in businesses. Digitization is the root of cashless economy because technology is being improved and developed every single day. Even at that, cashless economy has several pros and cons to businesses and its customers.

**Pros of a cashless economy**

1. No forged currency

Forged currency values will be declared worthless. People who involve in social evil practices generally tend to accumulate their wealth in cash. With the process of a cashless economy coming into effect, this accumulated cash will be useless to due to the note ban. If people invest money in the bank, the government will question them about that particular income source.

1. Transparent System

Computerized payments will improve transparency and culpability. The progress of the economy with liabilities can solely take place in a cashless economy.

1. Limited Cash Fraud

Theft or fraudulent acts concerning cash will be reduced to the bare minimum. Following the note ban, nobody would dare to steal money, which will promptly hinder the theft since the banks won’t accept that money anywhere.

1. Effortless Payment

The cashless transaction guarantees more manageable payment across the nation. For instance people who desire to transfer money to areas across India can effortlessly do it via the National Electronic Funds Transfer (NEFT) procedure. With the initiation of digitization, every individual ought to receive digital literacy at some time, therefore easing their troubles in the transfer of money and make transactions more honest.

1. Easy International Pay

Exchange of currency is a monotonous job for many individuals who usually reach for international travel. Cashless payment is an excellent option for those people.

1. Advances such as biometrics

Where individual physical and behavioral characteristics are measured and analyzed make copying and fraud increasingly difficult.

1. Convenience

Cashless payment modes are convenient for both consumers and businesses. Consumers do not need to carry cash or coins, which can be bulky, heavy, or easily lost or stolen.

1. Better record keeping

People can easily keep records of transactions. In this, every transaction has a digital record that can be analyzed digitally or printed for accounting, auditing, tax, and business development purposes.

1. Improved financial management

Similarly, the ease at which customers can access records of their financial transactions can lead to improved financial management. Anyone can log into their digital wallets or bank apps to view or download their statements of accounts. With these accounts, they can better understand their financial activities and use that knowledge to improve their budgeting and financial decision making.

1. Supporting a digital economy

A cashless society will help stimulate a digital economy, with an increased amount of fintech solutions and digital payment platforms building an e-commerce ecosystem.

**Cons of a cashless economy**

1. Low literacy rate

The low literacy rate is one of the top causes for multiple existing issues. Beginning a cashless economy or building a digitally literate place where there is illiteracy is not a simple task. Many places may not have electricity and water. So, computers and the internet are a far cry. Unfortunately, a higher number of the populations normally get based in most of the rural areas, without these necessities. People in these underprivileged areas rely entirely on cash. They can be deceived if they must rely on someone for online activities.

1. Chance of corruption

Despite being one of the points for digitizing financial transactions, one cannot guarantee crime to generate. A person exercising a bribe in money might necessitate it in kind instead of cash in the future, such as a mobile phone or a computer system (which is based solely on speculation).

1. Economy Disparity

If the standard payment techniques get changed into the cashless system completely, the chances are that purchasing smartphones or devices will become necessary. But in reality, what about many citizens who endeavor to provide for their daily food and necessities, purchasing smartphones is definitely a luxury these poor citizens cannot afford. If the cashless acquisition becomes the rule, then inequality can be seen in society because not everyone can afford it.

1. Overspending

There is no doubting the truth that cashless transactions are more straight forward to make simply by a mere click; people can execute payments. This advantage of transactions leads to an overspending tendency, particularly among the modern generation.

1. Identification Fraud

The risk of identity fraud is one of the significant disadvantages of the cashless economy. The rate of online fraud is growing with each departing day, expanding the perils of hacking. Not every person is perfectly tech-savvy or exceptionally aware of all the usage of technical gadgets. While attempting to make end up dissipating their personal identity in the online forum of creepy lurkers.

1. Transaction and processing fees

Even without businesses going entirely cashless they have to deal with the burden of high transaction and processing fees. Businesses with tight profit margins can actually lose money on some transactions because of these fees.

1. Technological Difficulties

Technology is not perfect. While electronic payment process can be convenient and fast, it can also be unreliable. If a payment processing system goes down, you cannot accept payments. A cashless business cannot take paper money as an alternative, so its operations will have to stop entirely until the system returns online.