

Move towards A Cashless Economy

- Sourika Banerjee*

As the countries evolved, it's the paper currency that has been dictating the world, causing the rise and fall of economies, and sometimes even leading to cold wars. However, nowadays it has been observed that there has been a strategic shift in the economy and 'digital trend' does play an important role in it. As the title suggests, a cashless economy refers to the flow of currency through electronic channels such as debits or credit cards, internet banking, mobile banking, Point of Sales (POS) and e-wallets. As the broader financial markets go through technology transformation the competition in digital payment methods is getting fierce and as a result, today cash seems no longer to be the dominant payment method across nations. It is important to understand and evaluate which technology is leading the evolution in digital payments.

A **cashless economy** is a new concept having been introduced in the 1990s. However, in earlier times, the barter system is often referred to as the primitive means of a cashless economy when people did not have specific currencies. The world will inevitably be heading towards a **cashless economy** as digitization has been going on for a while. Moreover, due to the fast pace of digital services, growth and consumer expectations there are still many small cities and touristic locations across the world that lack sufficient infrastructure while employers lack basic digital skills meaning they will probably lose business as consumers choose other locations to spend their money.

Some countries are well developed and can go with cashless currency, they are doing it for seventy-five percent of the transactions as we speak, but there are developing and underdeveloped countries also

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and they will face problems in going cashless and are not ready for cashless currency since the unorganized sector that primarily depends on cash transactions, constitutes a major part of these economies.

However, many countries have already been on their way to becoming cashless. In Kenya, more than seventy-five percent of adults use the mobile wallet service **M-Pesa**. Nearly a third of the Danish population uses **Mobile Pay**, a smartphone application for transferring money to other phones and shops. **The Bank of England** said debit cards overtook cash to become the number one payment in the UK for the first time in 2017. The current rate of decline means that cash would end in 2026. Through recent observation, it has been noticed that Australia would emerge as the first cashless economic nation in 2022. However, India has essentially been a cashed economy. One study shows that India spends 1.7% of its GDP on cash just to quint cash. Moreover, India is the only country with a Unified Payment Interface (UPI) in the bank and several experts have said that India's digital payment infrastructure is five years ahead of the United States of America. Sweden is one of the countries in which electronic payment is being used commonly these days. It is common to see signs such as "**no cash accepted**".

Crypto currencies used in payments is also on the rise giving the low costs of transaction associated with them. The fact that is challenging to trace crypto transactions has also seen their popularity skyrocket, especially among people who cherish their privacy.

Cashless transactions have made people keep their cash in the bank and hence liquidity in the banking system has increased. However, the cost is not the only incentive to move towards a cashless future. Demand is rising. Digital payments are not just neat, it becomes easier for governments to monitor tax evasion and fraud. A cashless economy did also stop the flow of black money to some extent for example in a country like India. Going cashless can also be beneficial to retailers. It provides safety to the employees of the business by not putting them at risk of robberies. Moreover in a cashless economy

companies and governments will get efficient and they can reduce costs as they no longer need the manual accounting work to be done. The costs associated with counting and handling cash are very high as it saves money and time. As the progression of non-cash transactions evolves rapidly the advancement in technology is fundamentally changing the way one pays for goods and services.

In a cashless economy, every single payment automatically recorded is efficient but there is a downside. Let's assume for example that a country that used to be democratic where people were not paying too much attention to safeguarding their privacy becomes undemocratic and someone wants to control citizens more closely, they will have to interfere with what one buys by monitoring what one is doing. Electronic money trials can allow governments and private companies to access and harvest personal data.

The **COVID-19** pandemic has turned business on its head, previously start-ups have had their investments while titans of industry have seen their shares tumble and production halted. Companies have had to drastically change the business models to keep pace with governmental guidelines, a feat which has been better managed by some than others. In such uncertain and unforeseen situations it is indeed difficult for companies to act accordingly. However, the move to digitalization would be a move in the right direction for many.

Experts say that the world will be having a cashless economy within five to eight years. Others, such as Professor Richard Holden from the UNESCO Business School, say it could happen within three years. It is said that the first truly cashless society would be a reality by 2023 according to a new report from global consultancy A.T.Kearny which said that **"in just five years we would be living in the very first cashless society"**

However, to become a cashless city, cities will need backing from technology partners and banks that can set up payment kiosks to make public transport and other transactions seamless. Cashless

transactions and a sustainable digital framework for money are vital parts of a smart city. It is better to think **long-term**. It is better to create incentive and disincentive structures by which people are automatically encouraged to move towards digital transactions. With the shift to cashless comes a series of challenges that need to be solved, otherwise one might end up reducing or straight up eliminating certain civil rights on which the societies are built.

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Darkness cannot drive out darkness; only light
can do that. Hate cannot drive out hate; only
love can do that.

- Martin Luther King Jr.

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